The United States

and

Foreign Investment Problems

By

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PREFACE

Prior to World War I the United States was one of the world's great debtor countries, just beginning to be a substantial exporter of capital. The two world wars which have intervened since then have made this country a net creditor on private account—that is quite apart from government financing. Of vastly greater importance is the fact that the United States has become the only significant source of new capital for international development. The former great lending countries—Great Britain, France, Germany, and the Netherlands—are now in a position where foreign borrowing is required.

In short, the United States has been catapulted by two great wars into a position where she is expected to play the traditional role of a creditor country, and on a vast scale. There is a striking contrast between the creditor position of the United States today and that of Great Britain in the late nineteenth century. The latter became a great creditor country by gradual processes which involved the export of capital goods over a long period of years and an accompanying domestic economic readjustment which required large imports of foodstuffs and raw materials. In effect, interest on the accumulated foreign investments was received in the form of these imports. On the other hand, the fortuitous events responsible for the great expansion of American exports did not produce any appreciable readjustment in the domestic economy. This country has not become dependent upon an increasing volume of imports of foodstuffs and raw materials, and we do not therefore get paid interest and dividends in the traditional way. Our economic organization is still such as to produce, normally and naturally, a large export surplus.

Moreover, the countries which now look to the United States for additional capital are beset with difficulties resulting from the dissipation of assets and the disorganization of economic life during the two wars. Capital is required, first and foremost, to get these countries back on their feet—back somewhere near their former

positions. In the main, loans for such purposes do not provide new wealth-producing facilities as did the loans formerly made by European investors for the expansion of the United States and other countries. The situation, however, differs considerably when one turns from Europe to Latin America and other less developed parts of the world.

International investment today is also severely hampered by general political and economic instability and by the nationalistic policies of borrowing countries. Economic and political instability are responsible in no small measure for national policies designed to protect the exchanges, safeguard industries, etc.; and in turn these developments often contribute to further economic and political instability. There has also been a striving for industrial expansion and economic independence which is rooted in part in other than military considerations. The promotion of this end has involved general commercial policies, exchange controls, export and import restrictions, discriminatory taxation, and even expropriation of the property of foreigners.

It is in this setting that the United States is expected to play the role of world salvager and world builder. It is with the problems here involved that this book deals.

The author of this book, Dr. Cleona Lewis, has played a prominent part in the writing of the Institution's long series of studies in the field of international debts and investments beginning in the early nineteen twenties. This volume is in the nature of a sequel to her standard work, *America's Stake in International Investments*, published in 1938. The present volume not only brings the relevant statistical information up to date, but shows the types of foreign investments that are most feasible under present conditions and discusses constructively the policies required if the United States is to aid substantially in the rehabilitation and upbuilding of the world economy.

HAROLD G. MOULTON
President

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INTRODUCTION

When privately owned capital is invested abroad, it is expected to serve a double purpose. The receiving country looks forward to future benefits for some or all of its people. These benefits will result from the expansion of productive plant and equipment or the better utilization of some of the country's various resources, including its population resources. In countries operating under responsible governments this is, and should be, a guiding principle in the negotiation of loan contracts and concession agreements. The private investor who furnishes the funds that are loaned abroad or used in developing a business enterprise located in a foreign country, looks at the other face of the coin. He is motivated by the expectation of future rewards in the form of interest, dividends, or business profits.

History furnishes many examples of so-called foreign investments that have not met both of these tests. Some have not yielded benefits to the receiving country. An extreme case was the wild-rubber industry that flourished for a time in the Belgian Congo under Belgian control. This brought death and destruction to the natives of the Congo while yielding huge returns to Belgian investors, particularly to the ruling family of Belgium. It is an open question, however, whether ventures of this kind should be classed as investments or as "freebooting" projects. The records also show many "investments" that ended in losses, not gains, for the investor —or speculator. This is true of interest-bearing loans as well as direct investments. For example, many European loans to American states for internal development in the early nineteenth century were defaulted. Other examples could be given of "investments" that failed to meet these tests. But the fact remains that it would be difficult to find any case where a private investment project was launched with no expectation of a return on the investment—in the form of interest, dividends, or profits.

Even the "loans" made by the United States government during World War I and the reconstruction period that followed were

expected to yield an agreed rate of interest and to be fully amortized within a certain period. In the minds of many of the American officials concerned, these loans had all the earmarks of *bona fide* investments. Funds were turned over to the borrowers. Repayment with interest was specifically called for by the terms of the loan contracts. It was expected that receipts of principal and interest from Europe would reimburse the United States government for the various costs it incurred in connection with the loans. This included the cost of obtaining the funds from the American people (through the sale of bonds in the Liberty Loan and Victory Loan campaigns) as well as annual interest charges and loan repayment.

Beneficial results for both the receiving country and the investor may sometimes be gained through the smile of Lady Luck, but in the main they flow only from wise investment, that is from a careful and well-informed study of a proposed project in all its phases. Loans for nonproductive projects, and loans that incur an obligation beyond the borrower's capacity to pay, will prove disappointing to both the receiving country and the lender, and also engender ill will between nations. Business enterprises developed abroad on the basis of faulty information and planning may also give rise to international difficulties, although this is less likely to occur unless failure is attributable to unfair dealing. Honest mistakes in judgment are likely to be soon forgiven, and even forgotten, by all parties concerned.

The people of the United States habitually have invested some of their savings abroad from colonial days down to the present time. For many decades this outflow of capital was very small indeed when compared with the reverse flow of foreign capital that was used in developing the resources and industries of the United States. Even at the close of the nineteenth century, when there was clear evidence that the tide was turning, so far as new investment was concerned, foreign-owned investments in the United States were about five times as great as American investments abroad. In 1914, when wartime liquidation of foreign holdings was just beginning, the ratio was still two to one.

During World War I American industry astonished the world by its tremendous output of goods, and by the size of the war loans

it furnished the allies. Experience of later years showed that, in many cases, gifts, not loans, would have better suited the situation existing during and immediately after the war. What was required was a pooling of resources for the purpose of winning the war and bridging the first difficult months of the postwar period. These lessons were learned too late to prevent the aftermath of bad feeling that usually attends an investment gone stale. But the understanding thus acquired was translated into action during World War II, and the pooling of resources by the United Nations to meet wartime requirements was carried forward under lend-lease and reverse lend-lease agreements.

Government lending practically came to an end in 1919, but the gap was filled by loans floated in the capital markets of the United States. In 1919 and 1920 long-term loans were issued that in the main served to refund the short-term loans that had been negotiated before the United States entered the war. Thereafter capital continued to be furnished to foreign borrowers through regular market channels until the outpouring of American funds came to an end in the depression of the 1930's, and the value of American-held foreign bonds turned down sharply. Meantime there had been a very considerable increase in American-owned mines, plantations, oil properties, factories, and other business enterprises located in foreign countries.

During World War II the aid that the United States furnished its allies under lend-lease agreements was many times as great as in the first world war. But by far the greater part of this huge amount has been canceled by the settlement agreements arranged with the various recipient governments, thereby clearing the books of what might otherwise have been very troublesome repayment obligations. It was hoped and expected, therefore, that with the aid of some additional government contributions and loans for relief purposes, and under the leadership of the World Bank and Fund, responsibility for financing reconstruction and development projects could again be left to private initiative. However, unsettled political conditions in Europe and the serious lag in economic recovery have appeared to necessitate continuance of government aid to Europe, both on a gift and loan basis.

At present there are many obstacles that hinder privately owned American capital from participating in the development of the natural resources of some areas. So long as funds may be secured from the United States government on a gift basis or easy loan terms, little foreign demand is likely to develop for the capital that otherwise might be furnished by private investors. Moreover, many underdeveloped countries have adopted nationalistic and discriminatory legislation that greatly increases the risks involved in foreign investment.

The present investigation considers the outlook for future American investments abroad in terms of the various factors that will affect the amount, and the geographic and industrial distribution of such investments. Many of the factors that are likely to encourage or discourage the foreign investment of American funds will have similar effects on prospective foreign investors in other countries. Therefore, while the analysis is focused on questions affecting American capital, the discussion has much wider application.

The study divides into three parts, with four chapters in each. Part I deals with America's capacity to make foreign investments. It also furnishes rough estimates of the present international financial position of other countries. Part II discusses future investment opportunities in terms of the foreign resources to be developed, the attractions offered, and the laws and practices that hinder the profitable employment of foreign capital in many parts of the world. Part III is concerned with the practices and policies of the United States government that have a bearing on the problem of foreign investment—ranging from the activities of the government as a supplier of capital to its participation in international conferences designed to formulate an international investment code.

It will be seen that the study does not consider important related questions in the field of commercial policy. It is agreed that if earnings on foreign investments are to be paid to investors in the United States, the means of payment must be provided through the sale of foreign goods and services for American dollars. This raises questions concerning future tariff barriers and tariff agreements, but those problems are outside the limits of this study.

PART I

DEBTOR-CREDITOR STATUS OF THE NATIONS

Since this study is concerned with the outlook for American investments abroad, it seems desirable to consider first the present international financial position of the United States—for the future stems from the present. The country's capacity to make foreign investments is considered, and in the light of what the government actually accomplished—in furnishing war and postwar goods and services to our allies on credit or through lend-lease or other financial aid—is shown to be tremendous. The present debt and investment position of the United States is also indicated and explained.

This is followed by an analysis of the debtor-creditor position of other countries, insofar as present incomplete information will permit. The purpose here is to answer the question so often asked—whether other countries besides the United States are now, or shortly may be, in a position to furnish capital to other countries. It also provides some information regarding potential borrowers, but does not attempt to appraise the credit standing of any country. In fact the study as a whole does not undertake such a task, although later chapters indicate in a general way the information necessary for an appraisal of investment opportunities in any particular country.

CHAPTER I

FOREIGN INVESTMENTS—SOURCES AND KINDS

The present chapter is concerned principally with some questions of definition, thereby clearing the ground for later chapters. It will indicate briefly what is meant by foreign investment. It will take up the question of defining two generally used terms, debtor and creditor, as applied to nations. Finally, it will consider the large classes that make up the long-term foreign investments of the nations, and the characteristics of each.

I. THE EXPORT OF SAVINGS

The annual income of a nation, stated in money terms, is the sum total of the wages and salaries, interest, rent, and profits received by the people. The bulk of this is normally derived from domestic productive activities, though some portion may be received from foreign investments previously made. This money income is the principal source of investment capital, whether for domestic or foreign purposes.

Where production is at primitive levels, most of the income is necessarily spent for consumer goods—only a few wealthy people being able to set aside any savings for investment purposes. But as countries develop their resources and producing capacity and as income increases, and especially as a substantial portion of the population reaches a state of affluence, the volume of funds available for investment steadily increases.

Even in these circumstances, the volume of foreign investment may not be large. This is because investment opportunities in the domestic market may still be more promising than those abroad. Indeed, prosperous countries that have promising outlets for capital may even borrow from foreign countries. Canada and Australia, for example, are now in this stage of development. Both have high national income in relation to population, but they have natural

resources whose development calls for the investment of more capital than is provided by their own citizens.

Prior to the ascendancy of the United States, the leaders in the foreign investment field were Great Britain, the Netherlands, France, and Switzerland. Germany, too, after the Franco-Prussian war—and receipt of an indemnity from France—was a source of international investment capital. These nations, having built up their domestic industries with a resulting increase in national income, were able to divert a considerable flow of savings across their borders. Other countries also made investments abroad, but on a much smaller scale.

To transform part of the savings of a nation into foreign investments, it must be possible to transfer goods and services across national frontiers. A loan of "money" to a foreigner is only an intermediate step in the investment process. In the hands of a foreigner such money represents a claim against the lending country, and until this claim is extinguished by the export of goods or services, no net increase in the foreign investments of the lender results from the loan.

The transfer of savings in connection with a particular investment transaction may be made by direct and related exports. For example, during the period when the British were accumulating investments in railways all over the world, they sometimes acquired the bonds or shares of a foreign railway in exchange for a cargo of rails, or for the services of British construction engineers. Investment in branch plants abroad is sometimes accomplished in large measure by the shipment of plant and equipment from the investing country.[1] The transfer of savings may also be made by exports not directly related to a particular investment transaction, or, in fact, to investments in any particular country. In such cases the proceeds from exports to various countries may be turned over to borrowers to be used for the purchase of goods (or services) in various markets.

[1] Changes in the investments of a country may also result fom the reinvestment abroad of foreign earnings, changes in the capitalized value of its companies operating abroad, changes in the terms of a loan contract, and in various other ways that are not covered by balance of payments statements.

A country that imports more goods and services than it exports is adding to its foreign obligations.

An excess of imports represents receipts of goods or services for which real payment is deferred until some future time.[2] It may be that net imports have been financed by borrowing abroad. It may also be that the borrowing country has simultaneously been adding to its own investments in foreign countries. But so long as imports exceed exports, the result will be a *net* increase in foreign obligations.

This was the experience of the United States until shortly before World War I. During the first century of our country's national existence, exports of goods on the average were large enough to cover only 80 to 85 per cent of the value of imports. The deficit in the commodity trade was increased by a deficit in the service trades, particularly in the "debt service" item. Payment required on interest and dividend account increased as the country's foreign obligations increased. It was not until the closing years of the period—1874 and 1875—that commodity exports almost equaled imports. Thereafter commodity exports continued to expand with the rising productivity of American fields and factories.

During the next 25 years, 1875-1900, exports and imports of all kinds except interest and dividends were practically in balance. But the bill to be paid on interest and dividend account was large, and the foreign obligations of the country continued to increase until shortly before World War I. At that time the balance of payments began to show net receipts from trade and services and a small net increase in investments. However, at the outbreak of the war the accumulated total of foreign obligations was more than twice as large as investments. It was not until some time during the war that American loans and direct investments (to finance the tremendous expansion in the American exports and to provide increased amounts of certain necessary raw materials) brought a shift from debtor to creditor status.

[2] Imports received as grants-in-aid from one country to another in time of war or other emergency constitute an exception.

Britain was the principal lending country during the years when America was importing goods and services on credit. The industrial revolution had come early in Britain, bringing with it increased productivity and business activity, and the emergence of a well-to-do middle class. Products of the new machine industries were in urgent demand on the continent of Europe during the Napoleonic wars, sales being financed in part by British grants to its allies. After the war the continued flow of exports was facilitated by numerous foreign loans on the London stock market. At the same time the country was receiving income from ocean shipping, marine insurance, and trade commissions, and from earlier investments abroad—principally from trading companies and from British-owned sugar and coffee plantations. By 1825 Britain's foreign investments exceeded its foreign obligations. Meanwhile, commodity imports were beginning to equal or exceed exports. Income from the service trades, particularly interest and dividends, was beginning to provide a means of payment for excess imports and to make possible new foreign investments. By 1913 the total amount of its foreign loans and its ownership of industrial and business properties abroad amounted to about 20 billion dollars.[3] World War I brought some liquidation of these foreign assets, the proceeds providing payment for extraordinary wartime imports.

II. WHAT IS A CREDITOR COUNTRY?

Practically all nations hold foreign investments of one kind or another, and practically all have foreign obligations, long- and short-term. What then is a creditor nation? What is a debtor?

A creditor nation is one whose accumulated foreign investments exceed its foreign obligations.

This is the most widely accepted definition and is the definition employed in this study. A debtor country is one having an excess of obligations. In order to classify a country in this way it is necessary to have an estimate of the foreign assets held by residents

[3] This is a gross figure, but no estimate is available for showing the offsetting foreign obligations of the British economy.

of the country, balanced against a similar estimate for foreign obligations.[4] It is customary to exclude from such a balance sheet personal property (such as homes and objects of art), property of charitable, religious, and educational institutions, and governmental property held for governmental use (such as embassies, military installations, and the like), and also the outstanding intergovernmental loans of World War I.[5] It is also the practice at present to include the intergovernmental loans incurred during and since World War II—but not grants and gifts such as the greater part of the wartime lend-lease and reverse lend-lease aid.

Other definitions sometimes are accepted or implied in current discussions.

The line between creditor and debtor countries is sometimes drawn in terms of annual receipts and payments on interest, dividend, and amortization account rather than in terms of the principal of the debts and investments. Under this criterion, a country with a large excess of investments would still be rated with the debtor group if, for the time being, a considerable part of its foreign holdings were yielding little or no return. This might happen if it had long-term, high-interest-rate obligations, while its assets were largely in liquid form bearing a low interest rate. It might happen if, in a period of depression, the country in question continued to pay on its own foreign obligations, while there were defaults on its holdings of foreign bonds and sharp reductions in its dividend receipts from foreign enterprises.

Sometimes a creditor country is defined as one that is currently investing abroad more capital than it receives from foreign sources. According to this definition, a country whose accumulated obligations are larger than its investments would be rated a creditor if, during the period under consideration, investments showed a larger increase than obligations. By this definition, for example, the United States became a creditor nation some time before the

[4] See balance sheets presented in App. A

[5] Robert L. Sammons, "International Investment Position of United States," *Foreign Commerce Weekly*, Jan. 27, 1945, p. 5; Paul D. Dickens, "Criteria for Determining the Creditor-Debtor Position of a Country," *Journal of Political Economy*, December 1939, pp. 846-56.

outbreak of World War I—since estimates for 1908 and 1914 show that in the intervening years American investments abroad increased by approximately 1 billion dollars while foreign obligations increased by only 800 millions. But in 1914 America's accumulated foreign obligations were more than twice its investments. Likewise, Canada would be rated a creditor country at the present time, but its accumulated foreign obligations are still considerably larger than its investments. It will be seen that a shift from debtor to creditor status, by this definition, precedes a shift in status as measured by accumulated obligations and investments.

Occasionally a country's debtor-creditor position is judged from its apparent lending or investing capacity, rather than its actual investment position. As has been pointed out by one writer, an accurate and objective appraisal in terms of this criterion is difficult if not impossible. "A country's potential foreign-investment capacity depends on a number of factors, including the volume of private and corporate savings, the willingness to invest abroad, the availability of foreign investment opportunities, and the ability to create and maintain a surplus on trade and service account."[6] What is of economic importance to world trade and production is investment capacity that is converted into realities, in the form of foreign loans or direct participation in the development of foreign resources. Moreover, in times of international stress and strain a government may, for humane or political purposes, make large demands on its country's capacity to produce and export, sending goods abroad on what amounts to a gift basis. The country's resources available for investment abroad are thereby reduced, without any corresponding increase in foreign assets.

III. THE CHARACTER OF FOREIGN INVESTMENTS

The short-term foreign investments of private investors are made up of loans and credits extended for one year or less.[7] They include credits—in the nature of revolving credits—that are extended in connection with foreign trade. That is, shipments of

[6] Sammons, *Foreign Commerce Weekly*, Jan. 27, 1945, p. 6.

[7] This is the definition adopted by the Department of Commerce. See Paul D. Dickens, *Foreign Long-Term Investments in the United States, 1937-39*, U.S. Department of Commerce, Economic Series No. 11 (1940), p. 3.

goods are sent out with payments due, say, in 90 days, and meantime payments are being received on earlier shipments. Short-term investments also include loans that are intended to be the forerunners of long-term bond issues, and are made to tide over a situation until long-term financing can be arranged. Bank deposits in foreign countries and bank loans also belong in the class of short-term investments.

The long-term foreign investments of private investors—having a duration of more than one year—are made up largely of two general classes of investments, "portfolio" and "direct." The test question for dividing long-term investments into these two classes is whether a given investment is of a character that presumably carries with it the rights and duties of commercial control. A portfolio investment involves no acquisition of commercial control, while a direct investment does.

In the balance sheets presented in Appendix A and considered in Chapter III, the large intergovernmental loans and debts of the war and reconstruction years of World War I are omitted. In Chapter IV, as explained on page 12 above, the intergovernmental loans of the present reconstruction period are included in the accounting but are not grouped with either portfolio or direct investments. Whether they are, in fact, investments is a question for the future to answer.

Government and government-guaranteed securities constitute the principal portfolio investments of most nations.

As defined by the United States Department of Commerce, investments of the portfolio type include the securities issued or guaranteed by a foreign government and also the securities of foreign business enterprises. Government issues predominate in the portfolio holdings of many countries.

Over the past century and a half, practically every country in the world has, at one time or another, mortgaged the credit of its government—floated bond issues—to obtain foreign funds. Sometimes these funds were wanted for meeting the direct costs of government, or for offsetting balance of payments deficits. Also, a great many loans were issued for the purpose of aiding in the

industrial expansion of the borrowing country and providing its people with services of various kinds.

The variety of purposes for which governments borrow abroad may be seen from the prospectuses for loans issued in the United States during the 1920's. The loans of Argentina will serve as an example. The national government of Argentina borrowed to meet payments on locomotives and cars for the state railways, to repay a bank loan which in turn had been contracted to repay a short-term loan from the British government; to acquire gold for support of a temporary issue of paper currency; for construction, extension, and improvement of public works, including the Argentine state railways; and for funding of the floating debt of the railways. Argentine provincial loans were issued to replace earlier sterling loans; to refund other maturing obligations; to tide the government over a period of lean tax receipts (tax-anticipation notes); to finance railroad construction, construction of roads, bridges, cold storage plants, schools, and other public buildings; for development of water works, sanitation systems, and other public works. Argentine municipalities were borrowing to build hospitals and power plants, improve their parks, for street improvements, and other public works.

Prospectuses covering the bond issues of other countries add to the variety. There were Austrian bonds for hydroelectric development and for communal and mortgage banks; a Belgian loan for the development of railways, ports, and other public works in the Belgian Congo; Brazilian loans for coffee valorization, for the removal of Castle Hill in the business section of Rio, and to retire a number of French loans; and a Colombian loan for highway construction.

Corporate securities that enjoy an international market make up most of the nongovernment portfolio investments.

Some corporations are so well and favorably known that their securities are widely held by investors in many countries, although their control is held in the country of incorporation. Securities issued by the Baltimore and Ohio Railroad, Canadian Pacific Railway, De Beers Consolidated Mines, International Nickel, Lau-

taro Nitrate Company, Ltd., Pennsylvania Railroad, Rand Mines, Ltd., Rio Tinto Copper Company, Royal Dutch Company, United States Steel Corporation, and Wagon Lits are among those so favored. They are listed on the stock exchanges of many important financial markets and are traded from hand to hand and from market to market.

In periods of great activity and optimism in the financial markets, even corporations that are not so well known to foreign investors may be able to float abroad large issues of bonds. Some of the better known companies may also sell abroad issues of shares in amounts not large enough to affect the nationality of control of the company. This was the case in the 1920's when the bonds and shares of many foreign companies were added to American portfolio holdings.

American loan capital was furnished for many companies in Canada, for a few in Japan and Latin America, and for one or more in many European countries. Bonds and notes of German corporations were handled in large blocks by American bankers, frequently with the aid of European bankers who took smaller lots of these securities. Dutch bankers usually were members of such consortiums and took larger blocks of securities than other European members. Swiss and Swedish bankers often were included and, occasionally, British or Canadian bankers participated. American bankers also handled some stock issues for a number of German corporations—principally for banks, but also for a steamship company, a department store chain, a manufacturer of electrical appliances, an electric power corporation, and the German National Railway Company. Another German steamship company gave shares of stock as part payment for ships bought from an American shipbuilder.

Portfolio investments may give rise to serious exchange problems for debtor countries.

American loans to foreign governments and corporations provide the borrowers with dollars that can be used in the United States to buy materials, machines and equipment, and the services of engineers and technicians. But for purchases of domestic labor and

materials, the domestic currency of the borrowing country is required. If used for domestic purposes, borrowed dollars must be exchanged for such currency. The immediate economic effect of dollar loans is to permit larger purchases of American and (by means of 3-cornered trade) other foreign goods—consumer goods as well as the producer goods called for by the project in hand. They also temporarily ease the balance of payments problems of borrowing countries. In the long run, however, this may not be the case.

It is characteristic of long-term loans—whether domestic or foreign—that the rate of interest is fixed in the loan contract. In good years and in bad, the borrower is committed to meet payments on the outstanding bonds. In depression years this presents difficulties even for debtors whose loans are held locally. But greater difficulties are involved for those whose loans are held by foreigners. This is because in years of depression the exports of all countries are likely to decline—in value, if not in volume. The debtor country, therefore, has fewer dollars with which to meet interest obligation on dollar loans, while its obligations remain the same as in good years. In fact foreign borrowing may be a strain on the borrower's foreign-exchange resources even in good years. Unless the net effect of borrowing is to increase the debtor country's exports of goods and services—and its receipts of foreign exchange—the payments required at regular intervals on interest and principal account, put a burden on the future balance of payments of the country.

Direct investments have played a very active part in developing the resources of new and backward areas.

The direct investments of a given country include (1) the foreign subsidiaries, branches, and other foreign properties owned and controlled by its domestic enterprises; (2) companies controlled by its nationals but organized to operate exclusively abroad—whether such companies are incorporated (or registered) at home or abroad; (3) holdings by individuals and groups of individuals of important equity interests in foreign corporations; and (4) real

property owned by nationals of the country, such as mines, timberlands, and plantations.[8]

Direct investments represent the venture capital engaged directly in exploiting foreign mineral and agricultural resources (that is, resources foreign to the controlling group of investors); in establishing manufacturing, trade, and banking enterprises abroad; and in building and operating public utilities that serve foreign areas. They operate under the terms of charters granted them by the foreign governments concerned. For returns on a given venture, the individual investor depends on a share in the earnings of his company, as contrasted with the fixed rate of return promised in the case of practically all portfolio investments. If no earnings are available for distribution, presumably no dividends are paid, while in lush years dividends may be very high.

For some enterprises working abroad there may be no lush years, or a change in conditions may adversely affect the earning capacity of what had been a successful company. Good "money" may be poured in after bad, until finally failure is admitted and the investing group takes its losses. Some direct investments are doomed to failure from the beginning by some vital difficulty not accurately evaluated in the original planning.

Ford's attempt to produce plantation rubber in Brazil is one of the well-known ventures that, for various reasons, ended in defeat. A Guggenheim gold placer mine in the Yukon yielded so little profit that operations were discontinued at an early date. In this case reports of the experts were accurate regarding the mineral content of the property, but they failed to note that because of the mine's northern location, the ground to be dredged was frozen and an expensive process of thawing with steam would be necessary before the gold could be recovered. The extraordinarily profitable foreign investments in Chilean nitrate production were turned to heavy losses by the damaging competition of synthetic nitrates manufactured by processes perfected in Germany shortly before World War I. Millions of dollars, of pounds sterling, of francs, and

[8] Robert L. Sammons and Milton Abelson, *American Direct Investments in Foreign Countries—1940*, U.S. Department of Commerce, Economic Series No. 20 (1942), pp. 2, 25

other currencies have been spent and lost in prospecting for foreign minerals, particularly for oil. Political disturbances—ranging from Indian uprisings and revolution in Mexico to such world-wide catastrophes as World War II—have brought temporary suspensions of operations and earnings, and large capital losses to many holders of direct investments.

On the other hand, many direct investments have yielded tremendous profits. They include companies producing oil, diamonds, copper, tin, rubber, bananas, tea, sugar, manufactured goods, light and power, and a great many other commodities and services. Luck played a part in the success of some of these companies. More important in most cases, however, was the application of science and technology to the problem in hand, and the use of efficient machines and tools to meet rising world demand.

The international transfer of capital and earnings on direct-investment account takes many forms.

The initial cost of a direct investment may be large or small, depending on the size and character of the undertaking; and the resulting transfer of payment may take various forms. Acquisition of the controlling interest in a going concern may involve large payments in cash—and therefore large foreign exchange transactions—just as in the case of a portfolio investment. It may be accomplished, however, through an exchange of securities or through patent-right agreements. For example, when General Motors bought control of the Adam Opel company of Germany and when General Electric acquired most of the stock of Canadian General Electric, large cash payments were involved. The Guggenheims acquired a large interest in Chilean nitrate by giving the existing British companies large blocks of stock in the company organized to modernize and expand production. The Libbey-Owens Glass Company obtained substantial investments in Europe through licensing its patents. Patent rights were also the basis of General Motors' early investment in Canada.

In the case of a new industrial enterprise—as contrasted with a business already in operation—the necessary land for the location of the plant may be furnished free of charge in some communities, or

bought at the going market price in others. Agricultural, mining, and oil companies are usually acquired on a royalty basis, though in many cases the concessionaire will make an advance payment to ensure good will toward his project. Payment of local labor of course calls for the transfer of funds from the investing country until such costs can be met from earnings. Machines and other equipment for a new enterprise are, in most cases, shipped from the investing country, while materials for plant construction may be furnished locally.

When the Guggenheims built their first smelter in Mexico, they bought machinery and equipment in Chicago, lumber in Texas and, under the terms of their concession, shipped these goods to Mexico free of duty. When Tubize Chatillon organized a Brazilian subsidiary, it dismantled its rayon plant at Hopewell, Virginia and shipped it to Brazil. When the Greene Consolidated Copper Co. was organized, using funds obtained in Wall Street, 50 big mule teams were bought and used in hauling supplies and equipment across the border; an army of American miners, machinists, and carpenters was hired at good wages; an American town, a big smelter and a concentrator were built in Mexico. When Ford acquired his concession for rubber planting, he sent a ship load of sawmills, structural steel, cement mixers, machinery, boilers, and other American manufactures to Brazil; began building a model town; and miles of roads and railroads; and hired local labor for the work of clearing and planting the jungle. If and when American oil companies build their projected pipe lines from the Persian Gulf to the Mediterranean, a thousand miles away, transportation of the necessary pipe and other equipment from the United States will require continuous operation of a fleet of ships for 30 months, at an estimated cost of around 20 to 30 million dollars.

Payment of dividends may be delayed for some time, even by a highly successful subsidiary or company, earnings being used meanwhile for expansion and development.[9] But eventually, when

[9] Specific examples from the oil industry, where initial expenditures for exploration and development are large, show that a long time may elapse before a new project begins commercial production. See *American Petroleum Interests in Foreign Countries*, Hearings before a Special Senate Committee Investigating Petroleum Resources, 79 Cong. 1 sess., pp. 226-33.

the problem of transferring dividends or profits does arise, it may prove much more difficult for some types of business than for others. The problem is to get dollars to send to American investors —or other currencies for investors of other nationalities.

This is not difficult for companies such as Cuban-American Sugar, United Fruit, or the Sumatran plantations of Goodyear Tire and Rubber—because they bring all or most of their output to the United States. They earn dollars, and accordingly have no difficulty in transferring dollars to their American stockholders. But for companies whose earnings from foreign operations are received in foreign currencies—such as International Harvester, American and Foreign Power, and foreign producing and marketing subsidiaries of the big oil companies—the case is different. If they are to remit dollars, they must buy them in the foreign exchange market, paying for them with the foreign currencies they hold. In doing so they may meet strong competition from foreign importers and other would-be purchasers of dollars.

Under the exchange-control systems that existed in some countries prior to World War II, it was impossible for some companies working abroad to purchase dollars at any price. It is reported that Standard of New Jersey sent some bizarre shipments for sale in the United States—including a cargo of Harz Mountain warblers and a cargo of German mouth organs—as a means of transferring some of its German earnings to the United States.

American companies working abroad—and similar companies of other nationality—furnish recipient areas with new productive capacity, new opportunities for labor, new products for consumption or export. Very large enterprises—producing oil, sugar, or rubber, for example—build their own highways and railroads; provide housing, educational services, medical care, storage facilities for supplies and food and, of course, the plant and equipment used directly in the process of production. They bring to their foreign projects the necessary managerial services and technology that they have developed at considerable cost. And they accept the risk that there may be no earnings, and that they have no claim for reimbursement by the recipient country.

It would seem, all things considered, that countries seeking foreign aid for development purposes would prefer investments of the direct, rather than the portfolio type. But this is not always the case, principally because outside control, which is characteristic of direct investments, is sometimes interpreted by nationalistic peoples as an infringement of their sovereignty.[10] On the other hand, they recognize that government borrowing entails an obligation to make interest and amortization payments at a fixed rate in bad years as well as good. Under the circumstances, they sometimes favor one method of obtaining foreign capital, sometimes the other.

[10] Accordingly, many legal restrictions have been imposed on the foreign companies operating in these countries—a subject discussed at greater length in Chap. 7

CHAPTER II

AMERICA'S CAPACITY TO INVEST ABROAD[1]

Two world wars have revealed the tremendous capacity of the United States to produce goods for export. They have also emphasized the country's great financial resources that made such exports possible. During the first world war the country's foreign investments increased and some of its foreign obligations were liquidated, with a net result that for the first time in its history the United States was numbered with the creditor countries. But events connected with World War II, from Hitler's assumption of power to its present aftermath of world-wide financial and economic disorganization, have been responsible for curious changes in the international financial position of the United States. These are considered in the present chapter. They emphasize the fact that America's investment abroad is limited and modified by conditions and attitudes in other parts of the world.

I. THE DECADE OF THE THIRTIES

The foreign trade of the United States declined sharply with the onset of the great depression and recovered slowly from the low reached in 1932. The country's physical capacity to produce goods for export was as great as it had been in the prosperous twenties, but after 1928 foreign requirements for American goods were no longer supported by large extensions of long-term credit. Moreover, the period was characterized by large international movements of capital, and shifts of "hot money" to the United States brought unexpected changes in the foreign investments and obligations of the American economy.

[1] Unless otherwise noted, the balance of payments figures used in this chapter are from Department of Commerce, *International Transactions of the United States, 1914-1947* (revised and mimeographed table).

American exports exceeded imports throughout the decade of the thirties.

During the ten-year period 1930-39, exports of merchandise exceeded imports by a total of 4,488 million dollars. This was considerably below the 10,621 million-dollar export balance in the merchandise trade of the preceding 10 years but, for all that, was a sizable figure. At its lowest point the annual export balance amounted to only 226 million dollars,[2] rising thereafter to 1,070 million dollars in 1938, and falling to 938 millions in 1939. The balances for the last two years of the decade were closely comparable with those recorded 10 years earlier (1,090 million dollars in 1928 and 884 millions in 1929).

In the service transactions of the 1930's, as well as in the merchandise trade, the United States had receipts from foreigners more than sufficient to cover payments. Under this heading are included receipts and payments of interest and dividends on accumulated foreign investments and obligations, receipts and expenditures on account of foreign travel, freight and shipping services, and international receipts and payments on government account—such as costs of diplomatic and consular representation and maintenance of military establishments in foreign countries.

Income from interest and dividends regularly exceeded similar payments to foreigners, and for the period as a whole provided net receipts of 3,950 million dollars. Other service accounts, on the contrary, showed an excess of payments to foreigners amounting to 2,768 million dollars for the ten-year period. For all service items combined, therefore—interest and dividends and all others—net receipts amounted to 1,182 million dollars. With the merchandise trade included, receipts exceeded payments by 5,670 million dollars. In short, foreigners had to meet net payments here of almost 5.7 billion dollars.

Part of the means of payment was provided by so-called unilateral transfers—by remittances, gifts, and grants from immigrants and other persons in the United States, and from American phil-

[2] This was in 1933. The low point in both the export and import trade was 1932, but recovery in 1933 was somewhat greater in imports than in exports.

anthropic organizations, institutions, foundations, and the like.[3] During the thirties the sum so provided to foreigners aggregated 2,123 million dollars. The net balance remaining on trade and service account, to be funded or "settled" in some other way, amounted to 3,547 million dollars.

Despite the excess of exports, America's net foreign investments actually declined.

In normal times a trade and service balance in favor of a creditor country would be reflected in an increase in the net amount of its foreign investments. Gold would normally be used for settling only a relatively small part of the balance. But the period of the 1930's was not one of normal international relations. The change that actually took place in the international financial position of the United States was the reverse of what might have been expected.

At the beginning of the decade the foreign investments privately held in the United States exceeded similar obligations to foreigners by about 8.1 billion dollars. In addition foreign governments owed the United States government some 11.7 billions on war debt account. By the close of the decade the net total of American investments on private account was greatly reduced. This is shown by the table on page 26. Before the end of the period the war debts had been generally recognized as uncollectible and therefore are omitted from the table.

As the table stands it indicates an extraordinary decline in the net amount of America's foreign investments during the last year of the decade. This is explained in part by a change in the source of data with regard to foreign long-term investments in the United States (America's long-term obligations to foreigners). In 1941 the United States Treasury Department took a thoroughgoing census of these obligations—under an executive order requiring every person in the United States, including corporations and other

[3] In recent years the Department of Commerce has used the term "unilateral transfers" to cover this class of international transactions. Special attention is given to this item because of the great importance it assumed in connection with government operations in the war and postwar years.

AMERICA'S INTERNATIONAL FINANCIAL POSITION, 1929, 1938, 1939[a]

(In billions of dollars)

Private Account	1929		1938		1939	
Long-term investments:						
Direct (book value)	7.6		7.1		7.3	
Portfolio and miscellaneous[b]	7.8		4.4		4.1	
Total		15.4		11.5		11.4
Long-term obligations:						
Direct (book value)	1.4		1.9		2.9	
Portfolio and miscellaneous[b]	4.5		5.1		5.8	
Total		5.9		7.0		8.7
Net, long-term investments		9.5		4.5		2.7
Short-term investments	1.6		0.7		1.1	
Short-term obligations	3.0		2.2		3.8	
Net, short-term obligations		1.4		1.5		2.7
Net total, investments		8.1		3.0		—

[a] Estimates given here are from the following sources: for 1929, Cleona Lewis, *America's Stake in International Investments* (1938), pp. 450, 557–59, 575–607, and references cited there; see also, Hal B. Lary, *The United States in the World Economy* (U. S. Department of Commerce, 1943), p. 123; for 1938 long-term items, see App. A below, pp. 322–23, and for short-term, Board of Governors of the Federal Reserve System, *Banking and Monetary Statistics* (1943), p. 637 and Lary, *The United States in the World Economy*, p. 113; for 1939, U. S. Department of Commerce, *International Transactions of the United States During the War* (1948), table 27, p. 110, U. S. Treasury Department, *Census of Foreign-Owned Assets in the United States* (1945), and the same, *Census of American-Owned Assets in Foreign Countries* (1947).

[b] Common stocks were included at market values in all three years; preferred stocks and bonds at par in 1929 and 1938 and at market in 1939.

organizations, to make a report of all property held for or owned by a foreign country or national thereof.[4] The census showed much larger holdings by foreigners than earlier Department of Commerce estimates which had been based on an analysis of withholding tax returns filed with the Bureau of Internal Revenue. Reliance on income tax data showing payments made to foreigners led to understatment because the reports filed give no information concerning foreign participation in the ownership of American

[4] *Census of Foreign-Owned Assets in the United States* (1945).

enterprises or properties not required to file reports, or those not reporting payments on interest or dividend account.[5]

According to the roughly comparable estimates for 1929 and 1938, some important changes took place in the various classes of foreign investments and obligations. These accounted for more than a 50 per cent reduction in the net total of America's long-term investments, but for practically no *net* change in the short-term position. The more accurate figures for 1939 indicate that by the close of 1939 the foreign obligations of the country were equal to its investments. In short, the figures for 1939 show that during the decade of the thirties, a sizable net balance of foreign investments disappeared. This calls for an explanation in view of the fact that American goods and service trades (excluding gold movements) showed a surplus available for investment abroad.

This anomaly is explained principally by the flight of capital to the United States.

The large gold imports of the United States were a manifestation of the reaction in foreign countries to the disorganized political and economic conditions of the period. Gold imports of 3.5 billion dollars in excess of exports would have sufficed to settle the trade and service balance of the 1930's. Actually the net inflow of gold amounted to 10.8 billion dollars, or more than three times the sum required for settling the goods and service accounts. It is often charged that the trade policies of the United States were responsible for this large inflow of gold and for the resulting depletion of the gold stocks of other countries during the thirties. However, the records show that, in the main, these gold imports were closely interrelated with the flow of foreign capital to the United States.

It may be pointed out that the gold brought in and stored at Fort Knox is not a "foreign investment" or a "foreign asset" of the

[5] A *Census of American-Owned Assets in Foreign Countries* (taken by the Treasury in 1943) appears to confirm the practical accuracy and completeness of earlier surveys of American long-term investments abroad. But this apparent agreement is explained by changes in method of valuation. This census also showed that former estimates had been too low. No change was made in the data source and method of compilation of short-term items.

American economy. That is, it does not represent a claim against any country, or a claim that any particular country is obliged to honor. Therefore it is not included in the statement showing the *international* investments and obligations of the United States. It *is* part of the *national* wealth of the United States, of course, and is an asset that may perhaps be used at some time in the future for the purchase of foreign goods or foreign securities, for financing American enterprises abroad, or for settling the foreign deposit obligations of American banks and the United States Treasury.

The funds transferred to the United States during the thirties served two general purposes: (1) They increased the total of foreign claims against the American economy. (2) They reduced the total of American claims against foreigners. Various motives activated the many transactions that led to these results.

1. Foreigners, on their own initiative, were sending funds to the United States for investment during the thirties although the country had no need for borrowed funds. Fear of the future and a desire to protect accumulated savings were responsible for some large movements of capital during the decade. The will to be free of foreign indebtedness and the lure of bargain-sale prices also played a part.

The inflow of flight capital did not reach major proportions until the dollar was depreciated and stabilized early in 1934. In fact there was a substantial reduction in foreign short-term balances in the United States during the years 1930-33 and a concurrent withdrawal of American short-term funds from foreign countries.[6] Thereafter, confidence in the dollar returned, while fear of impending currency depreciation in many countries and the growing threat of war impelled many foreign investors to find a way of transferring their savings to America. Large sales of gold to the government of the United States provided dollar exchange that facilitated these transfers.

Attracted by the comparative safety and high rate of return offered by long-term investments in the United States, some refugee

[6] In the peak year 1931 foreign balances were reduced by 1.3 billion dollars, and American short-term capital abroad was reduced by 628 millions.

capital was invested in American bonds and shares. Some was deposited in American banks in spite of the negligible rate of return on such capital—its owners being interested primarily in keeping their savings liquid as well as safe. This flight of capital to the United States increased the claims of foreigners against the American economy.

2. The decade of the thirties was one of widespread defaults on interest and amortization payments due from foreign borrowers—government and private. Defaults by some borrowers brought a general and sharp decline in bond prices even though payments on many issues were regularly met. This encouraged foreign repurchases of the better bonds as well as speculative foreign purchases of those in default. Foreign governments also made large-scale repurchases of their own bonds—taking advantage of the opportunity to reduce their foreign indebtedness while bond prices were low. Moreover, a number of defaulting governments went into the market to buy their own bonds that were greatly depreciated in price because of default. In fact some governments repurchased their defaulted bonds with funds specifically earmarked for the service of those bonds. As prices declined, impatient American holders threw more and more of their foreign assets on the market. Such sales accounted for substantial reductions in the foreign "portfolio" held by American investors.

II. WAR AND POSTWAR YEARS, 1940-47[7]

During the war years the production of the United States was very greatly expanded to provide the goods needed by our civilian population, our armed forces at home and abroad, and our allies in the war. The problem of financing the increasing volume of exports was beginning to present grave difficulties when a solution was provided by the passage of the Lend-Lease Act in March 1941. Since the war the financing of exports for relief and reconstruction purposes has been a major problem.

[7] Balance of payments figures for 1947 are from U. S. Department of Commerce, *Survey of Current Business*, March 1948, p. 18.

World War II brought an unprecedented rise in the export balance.

During the six war years, 1940-45, merchandise exports exceeded imports by a total of 36 billion dollars. In addition a balance of 2.2 billion dollars was paid by foreigners on interest and dividend account, and a balance of 2.5 billions on the other service trades. With services included, therefore, the export balance of the United States for these six years totaled 40.7 billion dollars. By the end of 1947 the export balance on merchandise account had increased to 52.8 billions (or more than ten times the net balance of commodity exports during the whole decade of the thirties). With interest and dividends and other service items included, the export balance for the eight years ending December 31, 1947 amounted to 60.1 billion dollars.

The greater part of this export balance was covered by unilateral transfers (lend-lease and other remittances, gifts, and grants from the government, and similar aid from various American organizations, institutions, and foundations, and from private individuals). In fact during the six war years unilateral transfers totaled 41.8 billion dollars, or more than the trade and service balance payable to the United States. The explanation for this apparent discrepancy is that cash exports (not covered by lend-lease) were kept at a minimum in order that shipments of war supplies could be expanded. Latin American countries, for example, complained bitterly because they could not get delivery of many kinds of goods they wanted. At the same time, United States imports from these countries increased and were bought on a cash basis. Since the end of the war (and the end of lend-lease) unilateral transfers have amounted to an additional 5.6 billion dollars, bringing the total (in excess of similar aid furnished the United States) to 47.4 billion dollars for the eight-year period as a whole.[8]

Foreign shipments of gold to the United States continued during the war and postwar years, although there were reverse movements in some years. Net imports of gold into the United States amounted

[8] Of this amount, lend-lease and other government grants accounted for about 45.9 billion dollars.

to 2.3 billion dollars during the war years, and an additional 2.8 billions since the war, or 5.1 billions for the whole eight-year period.

Recapitulation: During the war years the unilateral transfers and gold imports of the United States provided foreigners with 44.1 billion dollars of purchasing power,[9] or 3.4 billions more than they required to cover the 40.7 billion dollar net total payable in the United States on trade and service account. This means that claims against the United States were accumulating in foreign hands during years when the country's capacity to export was greater than that of any other country in any period of time, and during years when this capacity was being used to the limit.

During the succeeding two years the situation was reversed: net exports of goods and services from the United States were larger than all gifts and grants and gold imports, the excess amounting to 11 billion dollars. In this period American loans and credits were extended to permit continued foreign purchases in the American market.

The international financial position of the United States has shown sharp changes since 1939.

As the preceding analysis has indicated, foreign claims against the American economy accumulated during the war years when the great bulk of the country's export trade consisted of goods and services furnished free of charge to the allies. Thereafter, the diminished (but still large) volume of unilateral transfers from the United States was supplemented by large loans to foreign governments and other investments abroad. The table on page 32 gives a rough measure of the changes in the foreign debt and investment position of the country that occurred during the six war years, 1940-45, and during the two years following the war.

[9] Additional dollar exchange was provided as a result of U. S. government expenditures abroad for provisions and services furnished our troops in countries not participating in lend-lease agreements, and by the personal expenditures of our armed forces wherever they were stationed. It is known that these transactions helped to build up the dollar balances of foreign governments and the hidden savings of private individuals abroad, but no reliable information is available concerning the amounts involved.

AMERICA'S INTERNATIONAL FINANCIAL POSITION, 1939, 1945, 1947[a]
(Year-end figures in billions of dollars)

Private Account	1939		1945		1947	
Long-term investments						
Direct (book value)	7.3		8 1		9.4	
Portfolio and miscellaneous[b]	4 1		5 6		5 6	
Total		11.4		13 7		15.0
Long-term obligations:						
Direct (book value)	2.9		2.7		2 6	
Portfolio and miscellaneous[b]	5 8		5 8		4.8	
Total		8.7		8.5		7.4
Net, long-term investments		2.7		5 2		7.6
Short-term.						
Investments	1.1		0.9		1 4	
Obligations	3.8		5 7		5 1	
Net, short-term obligations		2.7		4.8		3.7
Net total, private investments		—		0 4		3 9
Government Account						
Long-term investments (1947 includes 3.4 billions paid on subscriptions to Bank and Fund)	—		1 6		11.7[c]	
Long-term bonds held abroad	0.1		0.5		0.4	
Net, investments (+) or obligations (−)		−0 1		+1.1		+11.3
Short-term investments	—		0.6		0.4	
Short-term obligations	0.2		3.1		3 5	
Net, investments (+) or obligations (−)		−0.2		−2.5		− 3.1
Net total, government investments (+) or obligations (−)		−0 3		−1 4		+ 8.2
Private and Government Net, investments (+) or obligations (−)		−0 3		−1.0		+12.1

[a] World War I debts are not included. Figures for 1939 and 1945 are from U. S. Department of Commerce, *International Transactions of the United States During the War* (1948), p. 110; for 1947 from a preliminary estimate (May 19, 1948) of the international Economics Division, Office of Business Economics, Department of Commerce.

[b] Estimates show common and preferred stocks and bonds at market values

[c] The Bank and Fund held 2.3 billion dollars of short- and long-term investments in the United States—distributed among various United States "obligations" items, government and private, for 1947. The gold that the Bank received as part payment on the subscription of the United States (688 million dollars) is not included among the foreign obligations of the United States.

1940-45. During the war years the net total of American long-term investments—private and government—increased by 3.7 billion dollars. This included a net increase of 2.5 billion dollars in private long-term investments and 1.2 billions in government long-term loans to foreigners.

On short-term account, on the contrary, an increase occurred in claims against the American economy. During 1940 and part of 1941, continued gold shipments to the United States helped build up foreign balances. Thereafter, many countries accumulated dollars earned by selling more to the United States than they could buy here—in transactions through regular trade channels, or in connection with the foreign expenditures of the United States government or the expenditures of our troops stationed abroad. Latin American countries increased their exports to the United States and left on deposit dollars they were unable to spend in this market. Canada invested in short-term securities issued by the United States government. The Philippines increased their reserves with the United States Treasury. Various other countries where our troops were stationed built up their official balances, and also private hoards, of dollars. The net increase in these short-term claims amounted to 4.4 billion dollars.

It will be seen that the net increase in these short-term obligations was greater than the rise in American long-term investments. In fact, the United States emerged from the war a net debtor to the extent of about 1 billion dollars. But the increase in foreign obligations as compared with investment was not as large as was forecast by the analysis of trade, service, and related transactions (pages 30-31 above). It amounted to only 700 million dollars compared with the 3.4 billions indicated by that analysis. This calls for explanation.[10]

The changes that occur in the international financial position of a country over a period of time are the result of a multitude of transactions. In the main, these are interrelated with the flow of goods, services, and gold between countries. They take the form of a transfer of title to properties or existing securities, or the creation

[10] The balance of payments statement includes a balancing item—"errors and omissions"—which shows that available information regarding some or all items in the statement is faulty. The errors indicated might affect any item in the balance of payments account, including the debt and investment items.

of various kinds of credit instruments. To the extent that capital transactions of this kind can be identified, they are recorded in balance of payments statements. Certain other types of capital transactions are not included in balance of payments statements as they are usually compiled, for example: the reinvestment of earnings of branch enterprises operating abroad, price changes affecting portfolio investments and obligations, and investments brought in or taken out by their migrating owners.

Long-term investments and obligations—both direct and portfolio—were affected by changes such as these during the war.[11] The debt and investment statement on page 32 shows an increase in direct investments from 1939 to 1945, although balance of payments figures show that new direct investments were more than offset by liquidations of American-controlled enterprises—principally in areas where they were threatened by war damage or loss from political action. The explanation for this apparent contradiction is that reinvested earnings were large (estimated at 913 million dollars); and sizable investments in foreign enterprises were brought in by refugees.[12] Portfolio investments also increased although amortization payments on existing loans exceeded new foreign loans. Here the increase is explained by several factors, including market purchases of foreign securities, a rise in security prices, and the securities brought in by European refugees.

The long-term obligations of the American economy showed little change, although there were some sizable foreign liquidations. Sales of foreign-controlled enterprises in the United States were offset principally by the reinvestment of earnings. Reductions in foreign portfolios were offset by the rise in American bond and stock prices.

1946-47. Government loans are largely responsible for the shift in the position of the United States from an international debtor in 1945 to creditor in 1947. There has also been a considerable in-

[11] Short-term items may be affected by changes in the value of the currencies in which they are expressed, but no important changes of this kind affected the American international balance sheet during the forties.

[12] U S. Department of Commerce, *International Transactions of the United States During the War*, pp. 216-17

crease in private investments, and a decrease in nongoverment obligations to foreigners. New direct investments have included increased facilities of American oil companies for producing, refining, and transporting oil in the Middle East, Venezuela, and elsewhere; large oil refineries erected in England, and other European states; and the establishment of manufacturing branch plants and factories in many parts of the world. Portfolio investments have been increased by the purchase of most of the bonds offered by the International Bank, offset by amortization payments on outstanding issues. Nongovernment obligations have been increased by the investment here of funds belonging to the Bretton Woods institutions. However, this increase has been more than offset by foreign liquidations of balances in American banks and of security holdings in the United States.

By the close of 1947 the country was, on balance, an international creditor for some 12.1 billion dollars—the net amount of American investments in all foreign countries. The net increase in investments since 1939 (12.4 billion dollars) falls far short of measuring the country's capacity to export capital. This is because it does not, and should not, include the large exports of goods and services that have been furnished other countries during and since the war with no repayment required.

CONCLUSIONS

The United States has a vast capacity for making foreign investments. This was demonstrated during World War I, when the country's foreign investments first exceeded its foreign obligations, and again in World War II. In almost every year since it first became a net creditor, the country's exports of goods and services have greatly exceeded imports. Moreover, the experience of World War II has shown that net exports in the interwar years might have been considerably increased if there had been effective demand for the goods from credit-worthy foreign borrowers.

By 1929 the foreign assets of private investors in the United States exceeded the liabilities by 8.1 billion dollars on long- and short-term account. In addition the United States government was creditor to other governments for a total of roughly 11.7 billion

dollars—debts that later proved to be uncollectible. During the 1930's, however, there was a flight of foreign capital to the United States and a withdrawal of some American capital from areas where its safety was threatened. As a result of this increase in international obligations and decrease in investments, America again became a debtor nation—as it had been prior to World War I. During World War II its foreign indebtedness increased in spite of the tremendous outflow of its exports. This was because the great bulk of these exports was furnished to the allies as a contribution to the war effort, not on an investment basis. After VJ-day, United States government loans were extended to a number of countries with preferred credit rating, and unilateral transfers of goods were greatly reduced. These loans built up the investment side of the international balance sheet.

No attention has been given in this chapter to the well-known fact that strains and shortages developed in the American economy as a result of the war effort. However, the experience of the years since 1929 shows that America's capacity to invest abroad is not likely to be limited by its capacity to produce goods for export. A more effective limitation on American investments in the future is likely to be the capacity and willingness of foreign countries to accept American capital on a mutually profitable basis. This is a question that is explored in chapters that follow.

CHAPTER III

DEBTOR AND CREDITOR COUNTRIES, 1938

American foreign investment in the future will depend in no small degree on the international debt and investment position of other countries. A number of countries have characteristically been borrowers, while others have been lenders. In the present chapter and the one that follows, we shall present the available data with regard to the principal debtor and creditor countries as a basis for gauging their position as potential competitors in the international investment market and their capacity to borrow foreign capital on a business basis.

Consideration is given first to the situation existing in 1938. This was the last year before the outbreak of war in Europe, and also the last year for which reasonably reliable data have been compiled with regard to the international financial position of most countries. The figures for 1938 together with the limited information available regarding changes that have taken place during and since the war furnish a basis for appraising the situation in 1947 which is considered in the following chapter.

I. INTERNATIONAL INVESTMENT MAP OF THE WORLD, 1938

In 1938 more than 65 countries were enjoying a considerable measure of political independence, either as independent nations or as self-governing segments of an empire group. Only 10 of these —and no country with colonial status—were in the creditor class. Only 5 had net investments of as much as 1 billion dollars or more. Of the many debtor countries, only 11 had net obligations of as much as 1 billion dollars.

The great concentration of industry in a few countries in 1938 was matched by a like concentration in the ownership of foreign securities and foreign properties. More than 63 per cent of the world total of foreign investments was held by 6 creditor countries of Western Europe: Belgium, France, the Netherlands,

Sweden, Switzerland, and the United Kingdom. Stated in dollar values, the gross amount of their foreign holdings was approximately 34.8 billion dollars out of a world total of 55 billions. The rest of Europe held only 2 billions, for it was made up principally of debtor countries. Two North American countries—Canada, a debtor nation, and the United States, a creditor—together accounted for 13.3 billion dollars, or 24 per cent of the total. Other continents and countries taken together held only 2.6 billions. Finally, more than 2 billions of international investments could not be classified to show the creditor countries holding them, but the identity of the debtors was known.

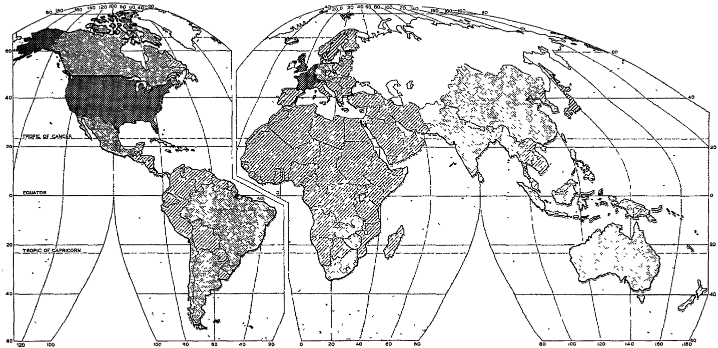
The debtor countries constitute a large and varied group that includes all colonial areas and many self-governing countries. In the main they were (and are) engaged primarily in the extractive industries—mining, agriculture, and forestry. One of them, Germany, was highly industrialized. Many were very poor, with low standards of living; but some were very prosperous. There was also a wide variation in the amounts of their foreign obligations—ranging from only 12 million dollars for Liberia, to 6.6 billion dollars for the government and people of Canada.

The map on page 39 shows the creditor or debtor status of the countries of the world in 1938. The heavily shaded areas show the countries with net investments or net obligations of 1 billion dollars or over. Lighter shadings are used for the small creditors and debtors. Four countries are left unshaded: From the viewpoint of the U.S.S.R., that country was neither a creditor nor a debtor.[1] The scanty information available regarding Eire is inconclusive. Afghanistan is a country that apparently had no foreign investments and—except for a small noninterest-bearing debt to the British government—had no foreign obligations. Greenland also was neither a creditor nor a debtor.

The map is based on the international balance sheets that are presented in Appendix A (pp. 285-343). These balance sheets show only the long-term debts and investments of the various countries

[1] After the revolution of 1917 the U.S.S.R. repudiated the outstanding foreign debts of the Russian government, including 11 billion francs (2.2 billion dollars) held by French investors, and smaller amounts in other countries. It also confiscated the direct investments of foreigners. This unilateral action left the Soviet with no acknowledged financial obligations to foreign investors.

Debtor and Creditor Nations, 1938



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Creditor Nations: Net investments of 1 billion dollars or more; Less than 1 billion dollars

Debtor Nations: Net obligations of 1 billion dollars or more; Less than 1 billion dollars

☐ No foreign investments or obligations, or information inconclusive

of the world—excluding the war and reparation debts left by World War I. The latter have long been in default, and events of recent years have brought to an end any possibility that they may be revived and payments resumed. Short-term items are omitted from the accounting since there are not many countries for which even the *net* short-term position is known, and very few countries for which a geographic breakdown of the short-term debts and investments is available. However, we have sufficient information to indicate that, for the year 1938, inclusion of short-term items would not change the classification of countries as presented in the map, although it would change the net figure shown for each of the various countries.

II. THE CREDITOR COUNTRIES

Apart from the United States, the list of creditor countries in 1938 included the following: Belgium, France, Italy, Japan, the Netherlands, Portugal, Sweden, Switzerland, and the United Kingdom. Development of their colonial possessions accounted for a considerable share of the investments held by many of these countries. In the past only three countries—the United Kingdom, France, and the Netherlands, with occasional co-operation from one or more of the others—provided important markets where foreign borrowers could obtain capital. Two members of the group, Italy and Japan, were better known as borrowers than as lenders. But both of them, in the course of expanding their political and economic domination over nearby areas, had spent large amounts for developmental and other purposes.

The United Kingdom was the ranking creditor country in 1938.

At the outbreak of World War I Britain was without question the leading creditor country of the world and continued to hold that position in 1938.[2] Its total long-term holdings in overseas coun-

[2] It is impossible to determine, either for the United States or Great Britain, the extent to which obligations occasioned by inflow of flight capital offset foreign investments, but it is clear that the net foreign assets held by the United Kingdom were larger than those of the United States.

tries, including some defaulted securities of questionable value, amounted to about 22.9 billion dollars;[3] foreign obligations perhaps 2 billions, more or less;[4] leaving net investments of roughly 21 billion dollars. Some of these holdings trace back to early times. For example, some in the South Pacific began with the early operations of the East India Company—organized near the close of the sixteenth century to break the Netherlands monopoly of the spice trade. The subsequent growth in investments was interrelated with the history of the times—economic and political.

On short-term account Britain was a net debtor in 1938 for around 3 to 4 billion dollars. An estimate published by the British government put the "net quick external liabilities" of the United Kingdom on August 31, 1938 at 3,685 million dollars.[5] With this figure for short-term indebtedness included in the balance sheet, the investment balance for 1938 stands at roughly 17 billion dollars, a much larger balance of foreign investments than is shown for any other country.

Of the 22.9 billion-dollar total of long-term investments overseas, approximately 11.6 billions were placed in Empire countries. The other 11.3 billions were in foreign countries. As they stand, these figures indicate that British investments were divided almost equally between Empire and foreign countries, and this would have been true if all countries had maintained the value of their governmental and other security issues at or near par. However, there had been marked deterioration in some British assets in foreign countries, while those within the Empire, particularly the direct investments, were undervalued in many cases.

[3] Converted to dollars at 5 dollars to the pound. Bonds are included at par The method of valuing stocks and properties is not clearly shown in many of the sources consulted. For discussion of the difficulties to be faced in valuing foreign investments, see Dominion Bureau of Statistics, *Canadian Balance of Payments* (1939), pp. 19-24

[4] In the appendix only 1.3 billions of these are identified, but other countries are known to have had some investments in Britain, and the list probably is incomplete.

[5] A year later they were put at 476 million pounds, or 1,920 million dollars (at $4.03 = £1). British Information Services, *Statistical Material Presented During the Washington Negotiations* (Text of a White Paper, Cmd. 6707, Presented by the Chancellor of the Exchequer to Parliament, December 1945), p. 11.

SHRINKAGE IN YIELD ON SOUTH AMERICAN SECURITIES, 1913 TO 1938[a]
(Sterling data are in millions of pounds)

Country	Outstanding Sterling Securities	Securities Yielding no Return	Interest and Dividend Receipts	
			Amount	*Rate Per Cent*
Argentina				
1938	£442.3	£191.6	£11 0	*2 4*
1913	357.7	8 8	17 7	*4.9*
Brazil				
1938	263.3	190 1	1 7	*0 6*
1913	223.9	7 1	10.9	*4.8*
Chile				
1938	87.5	12 0	1 0	*1.1*
1913	63.9	0.2	3 8	*5 9*
Colombia				
1938	5.9	4.2	0 07	*1 2*
1913	6.8	1 7	0 2	*3 3*
Cuba				
1938	34.7	25 9	0 4	*1.1*
1913	44.4	2.0	2.1	*4.8*
Mexico				
1938	176.1	165 1	0.8	*0 4*
1913	159 0	39 0	5 6	*3 7*
Peru				
1938	29.4	22.9	0 4	*1 2*
1913	25.7	9 4	0 7	*2 7*
Uruguay				
1938	39.2	13.1	1.1	*2 8*
1913	46.1	1.1	2.1	*4.6*
Venezuela				
1938	18.8	10.3	1 5	*7 8*
1913	8 0	0 5	0.3	*3.3*
Total, 9 countries				
1938	£1,097 2	£635 2	£18 0	*1 6*
1913	935 5	69 8	43.4	*4 6*

[a] Compiled from *South American Journal*, 1940, various numbers and pages

Defaults on foreign government and other bonds during the 1930's and earlier years decreased the yield and the value of British investments in foreign countries. For example, it was estimated in 1936 that Chilean securities with a par value of 101 million pounds sterling had a market value of only 18.7 millions.[6] The widespread character of Latin American defaults is indicated by the table above covering nine Latin American countries. It shows that: (1) in 1913 some 7.5 per cent of the sterling securities outstanding were in default, *increased* to 58 per cent in 1938; (2)

[6] Department of Overseas Trade, *Report on Economic and Commercial Conditions in Chile*, May 1936, p. 28.

in 1913 the average rate of return on sterling securities was 4.6 per cent, *reduced* to 1.6 per cent in 1938. In eight central European countries (Austria, Bulgaria, Germany, Greece, Hungary, Poland, Romania, Yugoslavia) the amount of interest paid in 1938 represented only 26 per cent of the aggregate amount due.[7]

British investments in Latin America (4.7 billion dollars) and in these eight central European countries (1.1. billions) together accounted for a little more than half of the total placed in all foreign countries. As indicated above, these 5.8 billions represented securities whose current market quotations were far below their original pars—although they also included some holdings of substantial value, such as Venezuelan and Romanian oil properties and Argentine government bonds. The other 5.5 billions placed in foreign countries were of relatively high grade,[8] but they too included some defaulted securities. On the whole, therefore, it would seem that the 11.3 billions placed in foreign countries may have had a market value of around 7 billion dollars.

The investment in British Empire countries, on the contrary, may have had a current value well above the 11.6 billion total shown by our figures. Half of this amount represented gilt-edged government and government-guaranteed securities of Canada, Australia, India, New Zealand, and the Union of South Africa.[9] The other half included many British-owned enterprises whose earnings were extraordinarily large in terms of their reported book values—mines, oil companies, and tea, coffee, and rubber plantations.[10] Moreover, some British investments in companies operating overseas undoubtedly have been omitted by the compilers of the data. If it were possible to make full allowance for the appre-

[7] Calculations for Central Europe are based on the experience of United States foreign dollar bonds, but sterling loans did not fare appreciably better than American Data are from Institute of International Finance *Bulletin No. 105*, May 29, 1939, p. 23.

[8] In this block were the Suez Canal shares owned by the British government, which Disraeli bought for 4 million pounds in 1875 and which have since had a market value of more than 500 millions Leland H Jenks, *The Migration of British Capital to 1875* (1927), p. 324, *United Nations World*, July 1948, p. 2.

[9] There had been some defaults by Canadian provincial governments, but these were of little importance in comparison with the total.

[10] For the high rates of return earned on such holdings, see tables published by Sir Robert Kindersley in the *Economic Journal*, for example, 1931, pp. 377 and 380; 1939, pp. 684 and 690.

ciation in value and the undervaluation of some assets, this probably would offset the decline in value of others, leaving the grand total not far from the 22.9 billion dollar total shown by our figures.[11]

Britain's balance of payments statements show that interest and dividends from overseas investments have long been of great importance in balancing the country's trade and service accounts with the rest of the world, and in providing a surplus available for increasing these investments. During the late 1920's there was a comfortable margin of receipts over expenditures on trade and service account, and the records indicate a comparable increase in overseas investments.

The depression sharply reduced the net amount of the country's international receipts from all sources. Some new overseas issues were floated in the London market throughout the thirties, but it appears that some subscriptions were paid with funds received from the amortization of former lendings, and some were taken by foreigners. In the meantime there was some flight of short-term capital to Britain, as well as to the United States, and this foreign money may have helped the British indirectly in their financing of long-term loans to other countries. Britain was with difficulty maintaining its position as a source of new capital for overseas enterprises and borrowers.[12]

The Netherlands was a creditor country of importance in 1938.

In 1938 Dutch long-term investments abroad amounted to about 4.8 billion dollars. Of this, 2 billions were placed in the colonies of the Netherlands, largely in tin mines, rubber plantations, and other enterprises operating in the East Indies. Almost 1 billion was

[11] According to two British writers, the value of Britain's overseas investments would have been somewhat higher at market prices ruling in 1939 than at par or nominal values. N. Kaldor and T. Barna, *The Economic Journal* (1943), p. 261n.

[12] For basic data see League of Nations, *Balances of Payments, 1938* (1939), pp 125-36.

placed in the United States. Investments in Europe amounted to 1.6. billions, of which considerably more than half was in countries where there had been no defaults down to the end of 1938. Little information is readily available concerning offsetting long-term obligations, but the total probably was not more than 500 million dollars, perhaps less. Net long-term investments, therefore, stood at about 4.3 billion dollars.[13]

In the main the Dutch are, and long have been a nation of small savers who buy foreign securities in small lots. But they pool their individual holdings of various types of securities under the management of one or another of the big Dutch banking houses and thereby gain many of the advantages that attach to large-scale holdings. They also have built up some very important direct investments, not only in the colonies but also in concerns operating on a world-wide scale, namely in four great trusts operating in as many fields of production. (1) The Unilever N.V. which, together with the British Lever Bros., controls the greater part of world production of margarine, soap, and various raw materials; (2) Royal Dutch Shell in which there is both Dutch and British capital; (3) Algemeene Kunstsijde Uni (Aku), one of the world's big rayon manufacturers, formerly connected with the German Bemberg concern; (4) the Phillips Gloeilampen, producer of electrical equipment, with many subsidiaries and affiliates throughout the world.

The investment history of the Dutch antedates that of the United Kingdom. By the year 1700 they numbered England, France, Russia, and many other European countries among their debtors and had made loans to colonial enterprises in various parts of the world. The following century was one of retrogression for them, but, with the close of the Napoleonic wars, they began repairing their fortunes. They also renewed their activities as exporters of capital, with the result that the Amsterdam stock exchange became highly international in character. Following World

[13] Short-term foreign liabilities of Netherlands banks (as reported by 78 banks) exceeded short-term assets by about 55 million dollars in 1938 Of long-term obligations we have been able to identify only 21 million dollars in all.

War I it played an important part in providing a market for existing foreign securities, and Amsterdam bankers participated in the flotation of many new foreign issues.

France, long a major creditor country, had lost ground by 1938.

At the outbreak of World War I, France had foreign and colonial investments of about 9 billion dollars gross, or something less than 8 billion dollars net. French losses during and after the war were heavy for several reasons. Russian loans amounting to 11 billion gold francs (2.2 billion dollars) in 1914 were repudiated by the new U.S.S.R. government. Some Turkish and Austro-Hungarian bonds were virtually repudiated by the governments of successor states. Some high-grade securities were liquidated during and after the war. Important losses resulted from the depreciation of the franc and the resulting decrease in value of bonds issued in French francs.

New investments made in the colonies and foreign countries during the twenties and thirties were smaller in the aggregate than these war and postwar losses. By 1938 the total of long-term investments amounted to roughly 3.9 billion dollars, against which there were obligations of about 560 millions or more, leaving net investments of about 3.3. billions.

Of the 3.9 billion-dollar total held in 1938, about 1.2 billions were placed in the colonies, 916 millions in European countries where defaults were prevalent and less than 320 millions in other European countries, 377 millions in Latin America, 512 millions in Asia and Oceania (including about 300 millions in Turkey), 408 millions in the United States, 40 millions more or less in Canada, and 316 millions in Egypt and Suez, South Africa, and Rhodesia. Barring their political value, probably half of these holdings would have had to be marked down to bargain prices to have found a market in 1938. On the whole, the French have long made their lending power an adjunct of their foreign policy—with unhappy results. This explains their large prewar loans to Russia and Turkey and their continued lending to the less prosperous countries of Europe during the 1920's.

It has been estimated that during most of the 1930's the interest and dividend receipts of the French from colonial and foreign investments amounted annually to about 140 million dollars (or roughly 40 per cent of the amount received from this source in 1914).[14] This, together with receipts from other services, sufficed to cover the adverse trade balance, with a sizable amount remaining for paying off some existing foreign indebtedness or for increasing their overseas investments. As a matter of fact, they did rapidly scale down their external debt—while promptly meeting contractual interest and amortization payments. But aside from some developmental loans for the colonies, they were discouraged from adding to their foreign portfolio because of the political and economic difficulties threatening the future of many countries. French investors were also disturbed from time to time with regard to the international financial situation of the country and, after the outbreak of the Italian-Ethiopian hostilities, by the threat of war in Europe. The result was that France was subject to recurrent flights of capital during the 1930's, while gold was alternately hoarded in France and sent to the United States, Britain, and Switzerland for deposit to French accounts.

Of other creditor nations, only Switzerland and Belgium were important sources of loan capital.

Swiss bankers developed at Zurich a financial market that attracted foreign funds in considerable amounts for investment and in many cases for safekeeping. This in turn gave Switzerland additional importance as a source of a capital for foreign borrowers, and following World War I the Swiss market participated in a number of loans that originated in London, New York, or Paris. Available information indicates that in 1938 Swiss long-term investments amounted to 1.6 billion dollars gross, or 1.4 billions net. These were concentrated in two areas: 780 million dollars in Europe and 763 millions in the United States. Only 67 millions were placed elsewhere, including 57 millions in South America.

[14] League of Nations, *Balances of Payments, 1938* (1939), p. 53.

Belgium also furnished a market for trading in existing foreign securities, and occasionally participated in new foreign issues. Belgian investments amounted to about 1.3 billion dollars, the greater part being divided about equally among the Congo, European countries, and South America. Offsetting obligations of 435 millions were held principally in Europe.

Sweden, a country that was gaining recognition as an exporter of capital, had some 381 millions invested in foreign countries; more than half of it in defaulting countries of Europe and South America.

Portugal had total foreign investments of about 394 million dollars. This included 300 millions more or less in its former colony, Brazil, whose default in the thirties brought great hardships in Portugal. An additional 92 millions were invested in the colonies.

Japan and Italy were creditor countries as a result of their invasions of nearby areas. Japanese investments totaled 1.2 billion dollars, of which almost 1.1 billions were placed in Chinese territory. The long-term foreign obligations of the Japanese amounted to 534 million dollars, held principally in the United Kingdom and the United States. Italy's 424 million dollar gross total included 201 millions of unproductive investments in its recently acquired East African colony. Most of the remainder was invested in European and South American countries where defaults were heavy. The evidence is inconclusive, but in the light of Italy's long dependence on foreign capital, and in view of the fact that balance of payments estimates show payments—not receipts—on interest and dividend account, it is probable that unidentified foreign obligations exceeded investments, barring the so-called East African investments.

The long-term debts and investments of the ten creditor countries may now be summarized for 1938. Information regarding the short-term position of most of them is incomplete or almost entirely lacking and is not included in the summary. Figures are in billions of dollars.

Country	Investments	Obligations	Net Investments
United Kingdom	22.9	2±	21±
United States	11.5	7.0	4.5
Netherlands	4.8	0.5	4.3
France	3.9	0.6	3.3
Switzerland	1.6	0.2	1.4
Belgium	1.3	0.4	0.9
Japan	1.2	0.5	0.7
Sweden	0.4		...
Portugal	0.4	..	..
Italy	0.4	..	...

In general, available information for these countries is more complete for investments than for debts—the outstanding exception being the data for the United States, where careful attention has been given to both sides of the account. Also, the data for the several countries are not strictly comparable. Therefore too much emphasis should not be placed on a country-by-country comparison. However, the figures serve as rough indicators of the relative position of the members of the creditor group.

III. THE DEBTOR COUNTRIES

The list of debtor countries in 1938 included practically all of the colonial areas of the world and most of the self-governing countries. In general colonial areas were unimportant as outlets for American capital—being primarily dependent on their respective mother countries for whatever external capital was used in their development. American investment experience was confined principally to the self-governing countries. Among them were some that in 1938 were not meeting payments on their existing obligations. There were also some whose trade and service operations were in easy balance, with some net income available for increasing their own foreign investments or reducing their foreign obligations.

In 1938 only 11 debtor countries had foreign long-term obligations of as much as 1 billion dollars.

Together these 11 countries accounted for 30.5 billion dollars of foreign long-term obligations, while the aggregate for all other debtor countries was about 14 billions, out of a world total of 55

billions. The remaining 10.5 billions represented foreign obligations of the creditor countries—including the 7 billion-dollar total for the United States, which was larger than that for any debtor country.

The table below shows the total foreign obligations of the principal debtors and indicates how much represented foreign control over their industries and resources, how much represented portfolio obligations. For purposes of comparison it also shows their foreign long-term investments.

LONG-TERM POSITION OF THE PRINCIPAL DEBTOR COUNTRIES, 1938
(In billions of dollars)

Debtor Country	Foreign Obligations			Foreign Investments
	Direct	Portfolio	Total	
Canada	2.5	4 1	6.6	1 9
Australia	.7	2.2	3.7[a]	.3
Argentina	2 6	.6	3 2	04
India	1.3	1 5	2 8	
Germany	.9	1 8	2 7	7
China	1.8	.8	2 6	8
Netherlands East Indies	1.7	7	2 4	..
Brazil	.7	1.3	2 0	...
Mexico	.9	9	1 8	.02
South Africa and Rhodesia	8	.6	1 4	...
Chile	.9	.4	1 3	02

[a] We have not been able to determine the character of the remaining 800 millions of Australian obligations.

Canada, at the top of the list, is a highly prosperous member of the British Empire. Although a large producer of food and industrial raw materials, it also is growing in importance as a manufacturing country. Because of its nearness to the United States, most of its foreign-controlled industries, and about 40 per cent of its portfolio obligations, were owned in this country in 1938. Of the 6.6 billion total of Canadian obligations, about 3.8 billions were held here and almost 2.7 billions in the United Kingdom. The small remainder was held principally by other European countries.

Australia, another prosperous member of the British Empire, owed most of its foreign obligations to the people of the mother country. The greater part was in the form of bonds issued by

the Commonwealth or by state governments, but there were some British-controlled manufacturing and mining companies in Australia in 1938, and some operating under American control.

Argentina, with a per-capita income higher than that of any other Latin American country or of most European countries, was one of the principal debtor nations. Its foreign obligations amounted to some 3.2 billion dollars, of which British investors held almost 2 billions. British holdings included 1.1 billions in British-controlled railways (yielding a very low rate of return in the 1930's), 500 millions in other British-controlled enterprises, and 338 millions in government or government-guaranteed securities. American investors held 582 millions. This included 388 millions in American-controlled public utilities, manufacturing, and distributing enterprises—principally in the oil and meat-packing industries—and 194 millions in government bonds. Other European countries held practically all of the remainder.

India, a British Empire country where the standard of living for most of the people is very low, had 2.8 billion dollars of foreign obligations in 1938. Practically all of this (2.7 billions) was held in the United Kingdom. It included 1.5 billions of government debt and government-guaranteed railway debt, and 1.2 billions of direct investments.

Germany was a creditor country from the close of the Franco-Prussian War until the close of World War I, but thereafter returned to its former debtor status. Most of its foreign holdings were liquidated during the war or turned over to the Reparation Commission at the war's end. In the postwar period—from the time the Dawes loan was issued in 1924 until foreign lending was suspended in the early 1930's—Germany received large amounts of foreign capital in the form of loans and direct investments. These German obligations were widely held in Europe and the United States and were considerably greater than Germany's own postwar investments abroad. On short-term account Germany was a net debtor to the extent of not less than 1.2 billion dollars.

China was charged with foreign obligations of roughly 2.6 billion dollars in 1938. This included 1.1 billions of Japanese claims —partly against China proper, but in large measure against

Manchukuo, the puppet state that had been carved out of Chinese territory. More than half of the remaining 1.5 billions was held by the British and was invested principally in British companies operating in Shanghai—with smaller amounts in companies operating in other Chinese cities and in loans to the Chinese government. American and European investors held practically all of the remainder. The one-time sizable Russian investment was greatly reduced in 1935 by the sale of the Chinese Eastern Railway (now the North Manchuria Railway)—sold to the Japanese at a bargain price.

The Netherlands East Indies, with foreign obligations of roughly 2.4 billion dollars, owed 1.9 billions to Dutch investors—including the government of the Netherlands. Of this amount about 1.25 billions represented Dutch ownership and control of tin mines and smelters, rubber, sugar, tea, coffee, and spice plantations, and petroleum wells and refineries—very profitable investments on the whole. The remainder of the Dutch holdings (about 650 millions) was in bonds and debentures of East Indian governments and industrial concerns.

Brazil, an underdeveloped country with a sparse population in its vast interior and with important but comparatively inaccessible natural resources, had foreign obligations of about 2 billion dollars in 1938. Britain, the United States, and Portugal were the principal investors, in the order named. The greater part of the 2 billion-dollar total (something like 1.3 billions) represented the indebtedness of federal, state, and local governments, including the debts of state-owned railways. Some 700 millions, more or less, were accounted for by American-controlled companies, particularly public utility, manufacturing, petroleum, and distribution enterprises, and by British and British-Canadian railways, utilities, and other companies.

Mexico is a country whose long history as an importer of capital has been marked by political revolution, class struggle, and efforts toward economic and social reform. Its government has issued bonds for many purposes—as subsidies to foreign enterprises, in exchange for nationalized railways and nationalized agri-

cultural lands, and for sale in foreign markets. The history of this debt is a long story of aggregate issues far larger than the country could service, and consequent early defaults. In general, Mexico's mines have yielded good returns to foreign concessionaires, in spite of difficulties and losses during periods of revolution and Indian uprisings. Its oil was a source of great wealth to foreign companies for several decades, but at the close of 1938 such holdings were in process of being appraised for government expropriation. As is well known, British and American investors were Mexico's principal creditors. In the table on page 321 an attempt has been made to summarize the foreign obligations of the country as they stood in 1938 (bonds at par and direct investments at book value). Under the circumstances, however, the market value of the portfolio debt was of course close to zero, and the value of oil properties was open to question.

The Union of South Africa, one of Britain's prosperous, self-governing dominions, is usually grouped in investments studies with two nearby Empire units—the protectorate of Northern Rhodesia and the colony of Southern Rhodesia. Together, these three important mineral-producing territories had external obligations of almost 1.4 billion dollars in 1938. British-controlled mining companies accounted for about half of the total, and most of the remainder represented government borrowing in Britain.

Chile, like most other South American countries, had looked to Europe for capital—principally to Britain—until shortly before World War I. American participation in the nitrate industry and acquisition of the country's low-grade, but extensive, copper ores began around 1909-10. This was followed shortly by aggressive and large-scale exploitation of these minerals, and by investment in the country's more limited iron ore resources. At the end of the war, Chilean bonds were taken in considerable amounts in the American market, and practically all were in default in 1938. Both American and British manufacturing companies operate in Chile, but Chilean citizens have provided most of the capital for this industry. Chile's foreign obligations in 1938 aggregated almost 1.3 billion dollars, of which 612 millions were held in the United

States, 410 millions in Britain, and minor amounts in other European countries.

American investments were of outstanding importance in the case of only two of these 11 countries. One of them, Canada, had large foreign obligations, but had ample capacity for meeting the payments involved and was itself an investor of growing importance. The other, Chile, was in default on all of its external debts. American investments were large in three other countries, but were almost equalled or exceeded by the investments of one of the other creditor countries. These three countries—Brazil, Germany, and Mexico—had stopped paying interest on most or all of their foreign debts before the end of 1938. The remaining six countries were bound by political or economic ties to one of the other creditor countries, and the greater part of their foreign obligations were held in those countries.

There were many "small debtor" countries in 1938.

By "small debtors" we mean countries whose net foreign obligations amounted to less than 1 billion dollars. This category was made up of the Balkan-Danubian group of countries (including Poland), most of the Baltic area (Denmark, Estonia, Finland, Latvia, Lithuania, Norway), all but three South American countries, most of the Caribbean area and the Near East, and practically all colonial countries of Africa and Asia.

In terms of physical resources, the "small debtors" had many characteristics in common. Barring the African colonies, they were small in area. In the main, they were lacking in industrial development and were dependent on a few agricultural or mineral exports for the foreign exchange used in obtaining imports and in meeting other foreign payments. Development of their principal productive resources in many cases was in the hands of foreigners.

Judged as credit risks, these countries differed widely in 1938. Perennial political upheavals made foreigners wary of placing

capital in some of them, while stable and thrifty governments made others attractive. Many had long since stopped paying interest on debts they had contracted in foreign countries—even using available foreign exchange for buying back their defaulted bonds at greatly reduced prices. Others were meticulous in observing the terms of their loan contracts.

In the Balkan-Danubian area and Poland, mineral deposits have proved attractive to foreign enterprise. Romanian oil, Polish zinc, Yugoslav copper, lead, zinc, and bauxite, and also the metallurgic industries of the area have attracted foreign capital. Such venture capital probably accounted for less than one third of the total foreign obligations of this group. British investors held about 26 per cent of the 3.3 billion-dollar total for the area, French 17 per cent, and American 12 per cent.

The Baltic area offered comparatively little attraction to foreign equity capital, aside from water-power sites for manufacturing in Norway. Direct investments accounted for only 24 per cent of total foreign obligations. Bond issues of these countries were highly regarded in foreign markets, many of them selling well above par in 1938. Here the principal investing countries were the United States, Britain, and Sweden.

Oil in Iran, Iraq, and nearby countries, Turkish chromite, and also the strategic political importance of the Near East (including Egypt and Suez) drew considerable amounts of both direct and portfolio investments to this part of the world. France was the principal investing country, with the United Kingdom a close second, and the United States a poor third.

In South America, development of oil and other mineral deposits required large capital expenditures and yielded highly satisfactory returns. In the Caribbean,[15] foreign capital was invested principally in sugar and fruit. These and other direct investments made up more than 70 per cent of all foreign obligations of the "small debtors" of Latin America—portfolio investments having been greatly reduced by repatriation of the government and gov-

[15] Excluding the colonial countries.

ernment-guaranteed bonds issued in the 1920's. Some 60 per cent of the total was held in the United States, 24 per cent in the United Kingdom.

In colonial countries, with one exception, the investment of the mother country far exceeded that of all others combined. The exception was Angola (Portuguese Africa) where British investments apparently were somewhat larger than those of Portugal.

Little has been said above regarding the foreign capital sent to the United States during the 1930's. This was because the ownership, and even the source of such capital was in many cases hidden from the authorities in order to evade controls imposed by the foreign governments concerned, and to avoid taxation and possible seizure of the capital.[16] However, it is clear that the flight of capital which affected America's investment position by creating large nominal obligations, had its counterpart in increasing the investments of the countries from which it came. Given a return of stable conditions, much of this capital might have been expected to return to the countries to which it belonged. However, because of the impending war, instability increased rather than abated.

[16] Some of this capital (from various countries) was deposited with Swiss banks as a means of hiding the identity of the beneficial owners, and was then deposited with American banks to the account of the Swiss banks. On plans for coaxing this capital to return home, see *The Statist*, Feb. 14, 1948, pp. 170-71, 174.

CHAPTER IV

DEBTOR AND CREDITOR COUNTRIES, 1947

Since 1938 important shifts have taken place in the debtor-creditor position of a number of countries. With one minor exception, all of the foreign countries in the creditor group in 1938 have experienced some impairment of their international balance sheets, and some must now be classed as debtors. Among those that formerly were net debtors, some have substantially improved their international financial position, while others face an increased burden of foreign debt.

It is still too early to measure all of these changes accurately and in detail, although an attempt will be made in this chapter to determine their present order of magnitude and direction. In general, no effort will be made to deal with the many relevant questions that remain unsettled—questions regarding reparations, territorial changes, shifts in political relations and controls, and the valuation of and compensation for foreign enterprises recently expropriated in Eastern Europe. The purpose is to analyze the debt and investment position of all countries for which data are available for the light that such data shed on potential outlets for American capital.

I. SHIFTS AMONG THE CREDITOR COUNTRIES

Of the nine foreign countries included in the creditor group in 1938, all but three have engaged actively in the most costly war in history, and have seen their international financial position deteriorate as the war progressed. Even the neutrals, Portugal excepted, have suffered losses.

Britain's foreign obligations now exceed its foreign investments.

Britain's expenditures in overseas markets during and since the war were far greater than current receipts from the export of goods

and services. In the early months of the war these deficits were met through the export of gold,[1] the liquidation of assets that could be sold for dollars and other acceptable foreign exchange, and by borrowing. Somewhat later, aid furnished under the terms of lend-lease and mutual-aid agreements greatly reduced the deficits that otherwise would have appeared in Britain's trade and service transactions with the rest of the world. However, a very sizable uncovered balance has remained each year.

Use of foreign exchange. The supply of dollars held by all British Empire countries at the end of August 1939 stood at approximately 1,050 millions, of which Canada held 356 millions.[2] A few days later, when Britain entered the war, it became important that these quick assets be mobilized. Therefore, Britain required or persuaded some satellite states and all Empire countries, except Canada, to pool their existing and future dollar resources under British control.

During the war the expenditures of American troops stationed in "dollar pool" countries and the cash purchases by the United States yielded these countries considerable amounts of dollars. Since 1945 Britain has continued to obtain dollars through the operation of the dollar pool and other borrowing, but has spent large amounts for current imports. At the end of June 1947 its holdings of dollars, as reported by United States banks, stood at 328.5 millions. In addition it had 1,700 million dollars representing the unused portion of the United States Treasury loan negotiated in 1946,[3] and 500 million dollars remaining from the Canadian loan.[4] Total available dollars, therefore, stood at 2,528 millions or 629 million pounds sterling as of July 1, 1947.

[1] Gold holdings of the Bank and the Equalization Fund declined from 3,449 million dollars at the close of 1938 to 292 million dollars in 1940, increased to about 2.0 billion dollars in September 1947. *Federal Reserve Bulletin*, February 1948, pp. 246, 251. Dollar values were calculated at $35 per oz. U. S. Board of Governors of the Federal Reserve System, *Banking and Monetary Statistics* (1943), p. 534.

[2] Bank for International Settlements, *Fourteenth Annual Report* (end of 1944), p. 132.

[3] Reduced by the end of September to 435 millions.

[4] *Labor and Industry in Britain*, Vol. 5, September-October 1947, p. 179.

Sale of long-term investments. At the beginning of the war Britain had overseas investments amounting to some 4.6 billion pounds (23 billion dollars at the rate of exchange ruling at that time).[5] If these holdings could have been liquidated without loss, they would have provided a very large volume of purchasing power in foreign markets. But they could not be liquidated without loss. In fact, if they had been thrown on world markets at whatever price they would bring, these large offerings would soon have disorganized the securities markets of the world and panic would have followed. Market sales of such securities, therefore, were handled with caution and were restricted in amount. In addition, Britain has disposed of some large blocks of securities, by dealing directly with the overseas governments that originally issued them.

India is the country where repatriations of securities have been largest. Under wartime agreements of the Indian and British governments Britain made large expenditures for airfields and other military installations in India, and for the equipment, supplies, and remuneration of Indian troops serving outside India. The necessary payments in rupees were made by the Indian government, and corresponding amounts of sterling were credited to that government's account in London. In this way India accumulated the sterling it used in repurchasing its securities (government and railway) and railway annuities formerly held in Britain, and the large sterling balance remaining to its credit in London. In effect, Britain sacrificed its Indian securities to obtain Indian aid in the war.

Other countries, principally Canada, South Africa, Argentina, and the United States (prior to our entry in the war), have also repurchased some of their securities from the British. The proceeds of these sales were used by the British government for the purchase of goods, for the erection of war plants in the United States and Canada, and for settling trade debts in South Africa and Argentina.

By the close of 1946, according to the Chancellor of the Exchequer, the sums realized from the sale of long-term overseas investments had amounted to a total of 1,118 million pounds

[5] For details see App. A, p. 318.

sterling.[6] In 1947 this total was increased to 1,268 million pounds by Argentina's repurchase of its British-controlled railway systems —at a price of 150 million pounds for an investment formerly valued at 250 millions.[7] These repatriations reduced Britain's overseas investments from the 4.6 billion pounds held in 1938 to about 3.3 billions at the middle of 1947.

New loans and investments. Foreign repurchases of investments considered above, have been partly offset by new loans, credits, and direct investments made by the British. In a report to Parliament April 30, 1947, foreign loans and credits extended by the government were put at 275 million pounds or roughly 1.1 billion dollars (of which 700 million dollars had been utilized by the close of 1946).[8] In addition, the government had paid almost 1.6 billion dollars (387 million pounds) on its subscriptions to the World Bank and Fund and had arranged the Anglo-French financial agreement of April 1946. This requires that France settle its 1945 trade debt by transferring to the British sterling securities to a total of 105 million pounds.[9] Some of the securities that will thus be acquired from France were issued by foreign borrowers and will increase Britain's foreign assets. Others were issued by the British government or British industries, and their acquisition will decrease Britain's foreign liabilities. In both cases the effect will be to improve Britain's international position.

New private investments include loans, estimated at 103 million pounds, and an unknown amount of new direct investments. Among the latter are new oil developments in Venezuela and the Middle East, expansion of the Lever Brothers investment in

[6] *The Financial Times*, Nov. 27, 1946, p. 1. The total reported for the middle of 1945 was 1,117 million pounds. *Statistical Material Presented During the Washington Negotiations*, Cmd. 6707, App. 3.

[7] Of which about 222 million pounds were held in Britain

[8] Bank for International Settlements, *Seventeenth Annual Report*, June 1947, pp. 122, 123, 136.

[9] Fifty millions were to be transferred by Mar. 31, 1947, an additional 30 millions during the next 12 months, and the remaining 25 millions by March 1949. In September 1946, 100 million pounds of current French debt to Britain was funded into a long-term debt, interest at ½ of 1 per cent. *The Economist*, Sept 21, 1946, p. 450.

African vegetable oils, and new Anglo-American Corporation investments in South African gold mining.

Short-term debts (or sterling balances). During and since the war, exchange-control and monetary agreements with many countries have made it possible for Britain to buy goods and services in outside markets far beyond its immediate capacity to pay. The dollar pool and the arrangement with the Indian government have been mentioned in preceding paragraphs. But short-term debts also accumulated as a result of adverse trade balances, and these were evidenced by sterling accounts in London to the credit of foreigners. Also, in most countries where Britain maintained its armies, the local currencies required for the purpose were provided by the central banks of the host countries—against sterling credits in London. These agreements thus provided funds to meet current requirements, but resulted in large short-term debts in the form of so-called sterling balances.

The net amount of the sterling balances was officially reported at 3,480 million pounds (or 14 billion dollars) at the close of 1946.[10] Six months later, after further repatriations of British-held securities, it stood at something like 3.3 billion pounds.[11]

The size of this short-term debt and Britain's present inability to deal with it is one of the difficult international problems left by the war. Before the war it was customary for the central banks and currency boards of many countries to keep some balances in London—as currency reserves, banking reserves, or as contingency funds to meet possible exchange difficulties. But the balances held for these purposes were then relatively small—estimated officially at 476 million pounds as of August 31, 1939.[12]

Long-term borrowing. Long-term borrowing abroad financed only a minor part of Britain's foreign purchases during the war. In 1946, however, the government obtained a large long-term loan from the United States and another from Canada. With these

[10] *National Income and Expenditures of the United Kingdom 1938 to 1948* April 1947, Cmd. 7099, p 49.

[11] This total is itemized by countries in App. B, p. 345.

[12] *Statistical Material Presented During the Washington Negotiations,* Cmd. 6707, p. 11.

loans included, the long-term foreign borrowing of the British government stood at about 1.5 billion pounds sterling in the summer of 1947. The items included were as follows, in millions:

Canadian loan of 1946	$1,250	
Reconstruction Finance Corporation loan	205	
United States credit for postwar lend-lease, surplus property, and other settlements	650	
United States Treasury loan of 1946	3,750	
Total	$5,855	= £1,453

Britain's international balance sheet. Brought together in a summary statement, the several classes of external debts and investments considered above show Britain's international creditor or debtor position. It must be noted that, for reasons considered below, this statement furnishes an incomplete picture of the situation.

BALANCE SHEET OF BRITAIN'S FOREIGN INVESTMENTS AND DEBTS, 1947[a]
(Mid-year figures, in millions)

Long-term investments:			
Prewar	£4,582		
New foreign loans, government and private	382		
Paid-up subscriptions to World Bank and Fund[b]	387		
Reduced by repatriations	−1,340		
Total long-term investments	...	£4,011	
Long-term liabilities.			
Prewar	£ 400		
Incurred since 1938	1,453		
Total long-term liabilities		1,853	
Excess of investments, long-term			£2,158
Short-term assets (foreign exchange balances, including unused portion of dollar loans)		£ 629	
Short-term liabilities (sterling balances).			
Prewar (August 31, 1939)	£ 476		
Incurred since outbreak of war	2,827		
Total short-term liabilities		3,303	
Excess of liabilities, short-term			2,674
Net liabilities			£ 516

[a] The geographic distribution of some balance sheet items is given in App. B, pp. 345-47

[b] The subscription to the Fund is paid in full, but the Bank has called for payment of only 20 per cent of the subscriptions of the respective countries.

Some British investments have lost much of their value as a result of war damage, but the extent of this loss cannot now be determined. There is also some question regarding the amount by which long-term assets have been reduced by repatriations—since the figures for repatriations show British receipts from such sales rather than the value formerly attributed to the assets sold. The investment figure is also subject to error because it takes no account of new direct investments that have been made. Finally, the figure given for sterling balances may overstate the amount Britain will ultimately have to pay its creditors: A considerable portion—estimated by the London *Economist* at 40 per cent of the total—will be required for currency and banking reserves, commercial balances, and the like.[13] Some may be converted into long-term, noninterest, or very low interest debt. Some may be canceled in part, such cancellations of indebtedness being akin to the action of the United States in wiping out wartime lend-lease claims against its allies.[14] The figures given above make no allowance for such possible changes.

As the balance sheet stands, (page 62) it shows that by 1947 Britain had shifted from creditor to debtor status. Its long-term assets exceeded liabilities by almost 2.2 billion pounds or about 8.7 billion dollars. But short-term liabilities were greater than assets by 2.7 billion pounds or about 10.7 billion dollars. On balance, therefore, the country's overseas liabilities exceeded comparable assets by a half billion pounds or 2 billion dollars.

The future significance of Britain's recent shift in international financial status is not yet clear, although it is certain that it increases the country's balance of payments difficulties. This applies particularly to the short-term sterling debt whose payment, even if spread over a long period of time, would absorb any net income the country might develop for years to come. Estimates for 1946 and 1947 show an alarming excess of goods and service imports over exports—in absolute amounts and in comparison with the 1930's.

[13] *The Economist*, Dec. 15, 1945, p. 877.

[14] Gifts of sterling balances already made to the mother country include 1 billion dollars in 1942 by Canada; and in 1946 a gift of 25 million pounds by Australia, 12.5 millions by New Zealand, and 1 million by South Africa.

Because of Britain's dependence on outside sources of supply for much of its food and industrial raw materials, such a worsening of the balance of payments is a serious matter.

British writers point out that in the two years since the war, production for export was hampered by the diversion of labor and materials to the repair of war-damaged factories, houses, and ships. Also, some exports were used by the government for meeting military and occupation costs, foreign relief and rehabilitation, and the like, and therefore were not available for meeting payments for imports. Deficits resulting from these causes presumably are of a temporary character, but meantime they have added to the foreign indebtedness of the country.

There are some favorable factors in the situation that are likely to be overlooked. On interest and dividend account, receipts from overseas—although considerably reduced—are larger than payments.[15] This is explained by the fact that the country's external liabilities pay very low rates of interest: The foreign-owned sterling balances that account for most of the short-term liabilities pay only ½ of 1 per cent, while the 5 billion dollar long-term debt to Canada and the United States will pay no interest until 1951, and none thereafter in any year when certain criteria indicate that the agreed waiver of interest is necessary. Against these low-interest obligations the country still has a very large total of long-term foreign assets, in spite of liquidations, and many of them yield high returns. Moreover, Britain's postwar program of assistance to the colonies for development purposes, together with the increased direct investments of some British companies, promise additional foreign earnings in the future.

The European Recovery Plan—or the Marshall Plan—envisages a large measure of direct aid for Britain, including economic assistance for the colonies. Moreover, by accomplishing its purpose of stabilizing conditions in other countries and improving world

[15] Net receipts of interest and dividends for 1947 were estimated at 51 million pounds net in the balance of payments prepared by the British Treasury, which shows payments at 94 million pounds, receipts at 145 millions. *Economic Survey for 1948*, Cmd. 7344, p. 13; also published in *The Economist*, Feb. 14, 1948, pp. 273-75.

trade and employment generally, it will be of additional aid to Britain, whose economy is closely integrated with that of the rest of the world. Whether the country can be expected eventually to resume a position of importance as a supplier of capital for other countries is a question that cannot be answered at the present time.

The Netherlands and Belgium remain in the creditor group in spite of war losses.

Early in the war these countries were occupied and for several years were required to pay occupation costs far in excess of the actual cost of occupation. This provided Germany with funds used in "buying" control over the banks and industries of these countries—purchases that sometimes were made without the owner's consent, and sometimes were on a "voluntary" basis, after the owner had been confined for a time in a concentration camp. Colonial possessions of the Dutch in the Orient were plundered and laid waste by the Japanese. Foreign investments in other Pacific areas were also adversely affected. In these and other ways the Dutch and Belgians have lost part of their foreign holdings, but some Axis loot is being restored to its rightful owners, and reconstruction is under way.

More than two thirds of the 4.8 billion dollars of long-term investments held by the Netherlands in 1938 were in areas that have been devastated. About 1.9 billion dollars were in the Netherlands Indies, where native uprisings are delaying the work of reconstruction.[16] Another 1.3 billion dollars were in other war areas, some of them now back of the Iron Curtain. With account taken of losses of all kinds, the remnant of Dutch investments in devastated countries is probably less than half the 1938 figure. Other losses and liquidations apparently have not been heavy. Securities in the United States classified as available for liquidation into dollars were officially estimated (by the Netherlands) in February 1947 at 561 million dollars not including 315 million dollars of

[16] Art. 14 of the Cheribon Agreement, signed Mar 25, 1947 by the Dutch and Indonesians, calls for the restoration of plantations and other properties to non-Indonesian owners, but those presently in possession of these properties in many cases refused to vacate.

Shell Union Oil stock held permanently by the Dutch- and British-owned Batavian Petroleum Co.[17]

Even if it is found that investments in the East Indies and Europe have decreased in value by more than 50 per cent, the Netherlands in 1947 may still have had 2 billion dollars or more of prewar foreign investments.[18] In addition it had paid-up subscriptions to the World Bank and Fund of 330 million dollars and has deposits in American banks (in excess of similar liabilities) of about 170 million dollars. Moreover, the country has shown moderation in its foreign borrowing in recent years. The Netherlands government had negotiated some 700 million dollars of intergovernmental loans and credits, plus a loan of 195 million dollars granted by the World Bank on August 7, 1947. Of these loans some 462 million dollars were utilized and outstanding at the middle of the year. It was also a net debtor for some 47 million dollars under its monetary and payments agreements with other governments.[19] It seems clear, however, that these foreign obligations, together with the negligible amounts owed to foreigners in 1938, were smaller than the foreign investments held by the Dutch government and people in 1947.

As for Belgium, almost 30 per cent of its investments in 1938 were in European and Asiatic countries where the war was fought. Losses in these areas are partially offset by the development of Congo productive resources and transportation facilities that took place under the pressure of Allied needs, and by the large sums of foreign currencies spent in Belgium by Allied armies. Moreover, at

[17] Standard and Poor's Corporation, *The Outlook*, Sept. 15, 1947, p. 620 The figure excludes direct (except Shell Union) and miscellaneous investments. In 1938 Dutch long-term investments of all kinds in the United States were estimated at 970 million dollars, while the U. S Treasury Department *Census of Foreign-Owned Assets in the United States* (1945), p. 15, reported the 1941 total of long- and short-term assets at 977 million dollars.

[18] An official estimate indicates that war damage probably caused a 50 per cent reduction in the value of foreign investments in the Netherlands East Indies, but the work of rehabilitation and reconstruction has begun *The Financial Times*, London, Oct. 4, 1947.

[19] Bank for International Settlements, *Seventeenth Annual Report*, pp 122, 123, 127.

the end of the war Belgium-Luxemburg had a balance in its favor in lend-lease accounts, a balance that covered most of its purchases of pipe-line lend-lease and surplus property after VJ-day.

Belgium's postwar borrowing at long-term—largely from the United States and Canada—stood at only 275 million dollars at the end of June 1947, while the government was a net creditor for 20 million dollars with regard to transactions under monetary and payments agreements with 17 countries. Assuming restoration of its looted securities, Belgium-Luxemburg should remain in the creditor group, with the net amount of its foreign investments somewhat smaller than in 1938.[20]

Since the war Belgium, Luxemburg, and the Netherlands have formed a customs union popularly known as "Benelux." This area has long had a deficit on trade account, but this was more than covered by income from services. Since the war, the deficit has increased, while receipts from interest, dividends, shipping, and other services have declined. Benelux, like many other areas, is facing balance of payments difficulties resulting from war losses and the dislocation of trade and payments relations. However, the Netherlands is now rebuilding its income-earning ocean shipping, and replanning its foreign trade. Belgium, from Belgian-owned and operated industries in the Congo, is producing such raw material exports as vegetable oils, copper, tin, and rubber. Belgium and Luxemburg are surpassing their prewar production of iron and steel and striving to increase coal output.

It is expected that this area, through its co-operation in the European Recovery Plan, will contribute to the economic recovery of Western Europe and will also achieve its own recovery to a balanced international position. If, as is sometimes suggested, the customs union should later become an economic union, it would start with the advantage of having relatively small indebtedness to the governments of other countries, and with important claims against the resources and production of other areas and countries.

[20] The same pp. 122, 128, App. B, p. 345, United Nations Economic and Social Council Document E 576, Sept. 22, 1947, p. 40.

The international financial position of France has deteriorated since 1938.

The value of French long-term investments abroad has been greatly reduced since 1938. In considerable measure this has resulted from the depreciation of the franc. About half of the 3.9 billion dollars of foreign loans and investments held in France in 1938 was in the form of securities payable in French francs. Therefore, the fall of the franc from a 4 cent rate in 1937 to .8 of 1 cent in 1947, directly and drastically affected these holdings. It amounted to an 80 per cent decline in the value of the franc and a corresponding decline in the value of paper-franc securities.[21]

Additional losses have resulted from the devastation of European and Pacific areas, where the French had more than 500 million dollars invested in business enterprises. No estimate of these losses is now possible, since civil war still rages in some Pacific areas where French holdings are large, and in Europe many questions remain unsettled.

More favorable conditions obtain in other countries where another 500 million dollars of French capital was invested directly in business enterprises in 1938. Such holdings probably have increased in value with the world-wide rise in prices. This seems likely in spite of the contrary evidence afforded in 1946 by the sale of the French-owned and controlled railways in Argentina to the Argentine government for 45 million dollars, or about one third of the value placed on them in 1938.

The remainder of the foreign holdings—probably as much as 1 billion dollars—was made up largely of securities issued in foreign currencies. Among these are many whose price level today is equal to or higher than in 1938, including the stocks and bonds of United States corporations and of South African gold mining companies. Some have now been sold, some are being used in settling trade debts, some were lost when the Germans "bought" control of many French banks during the war.[22] New long-term

[21] On gold-franc securities, see App. A, p. 290.

[22] The government reported at the close of 1945 that its incomplete financial census showed 711 million dollars of hard-currency securities in the hands of the French people. *The Economist,* Mar. 2, 1946, p. 348.

foreign investments by the French have been small with the exception of the paid-up subscriptions to the Bretton Woods Institutions, amounting in 1947 to 630 million dollars.

Standing against these long-term investments are the long-term obligations to foreigners. These include the prewar obligations of the French government and people to private investors (amounting to about 560 million dollars in 1938) and the postwar loans that foreign governments have extended to France. By the close of 1946 the French government had negotiated long-term loans and credits from other governments to a total of 2.6 billion dollars—most of it spent by the middle of 1947. These long-term loans in December 1946 stood as follows (in millions of dollars):

Creditor Government	Total Authorized	Utilized[23] December 30, 1946
Canada	243	146
Sweden	40	22
United Kingdom	400	400
United States	1,950	932
Total	2,633	1,500

The government also borrowed 65 million dollars from British and Swiss banks, and in May 1947 the Credit National, a semi-public corporation, obtained a 250 million dollar loan from the International Bank for Reconstruction and Development.

On short-term account France had large "official and private" assets at the end of 1945. The government then reported its own holdings of gold and foreign exchange at 1.8 billion dollars (presumably including deposits in American banks and the reserves of the Bank of France). In addition its incomplete financial census showed privately held gold and hard currencies amounting to 237 million dollars, bringing the total to more than 2 billion dollars.[24] How much of this was gold, how much represented claims against other countries is not reported, nor do later data show how much of these holdings are still in France. Short-term trade debts, under monetary and payments agreements with

[23] Bank for International Settlements, *Seventeenth Annual Report*, pp. 122, 127, 136. Of the United States loan 1,684 millions had been used by June 30, 1947.

[24] *The Economist*, Mar. 2, 1946, p 348

various European and South American governments, exceeded similar French claims by about 170 million dollars at the end of 1946, and this total probably increased during 1947.

Without undertaking to show precisely the French debt and investment position, the figures given above indicate that at the middle of 1947 long-term obligations to foreign governments and private investors had increased considerably and were larger than long-term foreign assets. Short-term assets, largely in the form of foreign deposits and currencies held privately and by the government, probably were larger than short-term obligations (uncovered trade debts), but data are not available for showing the net amount of these items. In short, in the summer of 1947 France may have been a net debtor or a net creditor, but by a narrow margin in either case. Further depreciation of the franc in January 1948, of course, resulted in a further decline in the already shrunken value of foreign securities payable in francs.

The investment losses of the French are reflected in the country's balance of payments. In 1938 interest and dividend receipts of 140 million dollars provided payment for more than half of the 244 million dollar commodity trade deficit; in 1947 investment income was reduced to only 2 million dollars net, while the trade deficit increased to 1.3 billion dollars. Meantime other sources of international income had deteriorated, so that the deficit for all trade and service items in 1947 was about 1.6 billion dollars.[25] However, the French government has been at work for some time on a recovery program that envisages a balance between payments and receipts on trade and service account by 1950.[26] This prediction may have been much too optimistic and, even with the aid promised under the Marshall Plan, may not be realized on schedule. But given world peace, France may within the foreseeable future again

[25] Etudes et Conjuncture (Numero Spécial, Septembre-Novembre, 1947), *Inventaire des Ressources de l'Économie Française*, p. 254.

[26] Ministère des Finances, *Inventaire de la Situation Financière 1913-1946* (1946), pp. 165-71, 619, 643. The mimeographed reports published by the U. S. State Department (*The European Recovery Program, Country Studies, France*, p. 72) does not anticipate a balance even as late as 1951-52.

have a surplus in its balance of payments available for investment abroad.

Three neutral countries, Switzerland, Sweden, and Portugal, remain in the creditor group.

Switzerland has experienced war losses owing to the fact that almost half of its 1.6 billion dollar total of long-term investments was located in Europe before World War II. The rest was invested principally in stocks and bonds of United States corporations, and in the main these holdings were still intact in 1947 and were greatly in excess of the long-term foreign obligations of the Swiss.[27]

During the war Switzerland furnished goods on credit to Germany and Italy, but its resulting claims have remained unsettled.[28] Short-term assets in the form of official and private deposits in American banks amounted to 390 million dollars net in 1947. Postwar monetary agreements to which the government has been a party have resulted in short-term claims against Britain, France, and the Netherlands amounting to 91 million dollars, and a short-term debt to Belgium of 1 million dollars. Another short-term debt of 10 million dollars is owed to Poland on a special coal account.[29]

On both long-term and short-term accounts, Switzerland's foreign assets are considerably larger than its foreign obligations. In fact, available evidence indicates that the country is clearly a net creditor, with investments exceeding obligations by more than 1.2 billion dollars.

Portugal, with little or no investment in Europe, has not suffered direct losses from the destruction visited on other European countries. Also, its favorable position as a neutral readily accessible to the purchasing agents of Allied governments enabled it to accumulate dollar and sterling exchange during the war. Therefore,

[27] App A, p. 316. Standard and Poor's, *The Outlook*, Sept. 15, 1947, p. 620, puts Swiss investments in the United States at "somewhat less than 600 million dollars." *World Report*, Aug. 5, 1947, p. 25, puts assets in the United States listed in Swiss names at 1 07 billion dollars, of which a considerable amount belongs to non-Swiss owners. See footnote p. 56.

[28] See pp. 74-75.

[29] Bank for International Settlements, *Seventeenth Annual Report*, pp. 126-27, *The Statist*, Dec. 7, 1946, International Banking Section, p. 8.

it is able to finance its import program without seeking aid from the European Recovery Plan. In fact its position is relatively so favorable that it may be able to grant trade credits to other countries of Western Europe.[30] In 1947 in addition to its former holdings of long-term investments, it had an accumulation of dollar exchange (Portuguese and Spanish holdings together estimated at 120 million dollars), sterling balances of 79 million pounds (or about 320 million dollars), and a short-term claim against the Netherlands of about 25 million dollars.[31]

Sweden in 1938 held practically all of its long-term investments in Europe, and while these still remain in Swedish hands they have of course lost value. Following a postwar policy of extending credit to European countries, Sweden has made long-term intergovernmental loans (to Denmark, Finland, France, the Netherlands, and Norway) of 126 million dollars, with an additional 24 millions authorized for these countries and 240 millions for the U.S.S.R. It has also extended commercial credits with an aggregate limit of 240 million dollars, and about 180 millions of these had been used by the end of 1946.[32] At the present time, with adequate allowance for investment losses resulting from the war and with intergovernmental and short-term items included in the accounting, Sweden now appears to be a net creditor for a half billion dollars or more.

However, difficulties developed in 1946 because of the great expansion in imports and because too large a part of the trade and service receipts was in "soft" currencies—which cannot be used in meeting payment for import requirements from Western Hemisphere countries. Sweden, therefore, is seeking aid under the ERP, with the expectation that by the year 1950-51 the balance of payments will again show a trade and service surplus available for foreign investment.[33]

[30] U. S. Department of State, *The European Recovery Program, Portugal*, pp. 1, 12-13.

[31] *World Report*, Aug. 5, 1947, p. 25; App. B, p. 345; Bank for International Settlements, *Seventeenth Annual Report*, p. 127.

[32] Bank for International Settlements, *Seventeenth Annual Report*, pp. 123-24, 126. Only a negligible amount of the Russian credit had been utilized

[33] U. S. State Department, *The European Recovery Program, Sweden*, pp. 13, 26-27.

Two Axis partners—Italy and Japan—were creditors in 1938 but are now debtor nations.

Both had large investments in areas they had acquired by aggression. Both have been stripped of such holdings and are net debtors to the rest of the world. Neither country at present has foreign purchasing power sufficient to meet the cost of necessary imports. And since their occupation began, both have been dependent on foreign financial assistance for the limited rations that are made available for the poor, American assistance in 1947 providing payment for roughly half of their respective import totals.

II. SHIFTS AMONG THE DEBTOR COUNTRIES

Debtor countries in the theaters of war saw the Axis partners seize control of their most important industries and natural resources, and take possession of their gold and foreign assets. The return of such loot to its rightful owners is now under way, and these countries will also be relieved of Axis claims that accumulated against them during the war. Among the debtors in other parts of the world, many have improved their international position since 1938. In the discussion that follows, it is convenient to divide the debtor countries of 1938 into a few large groups: Germany and countries recently under German domination, British Empire countries, Latin America, and other debtors.

Germany, during the war, acquired foreign investments throughout Nazi Europe.

On D-Day Germany was the principal creditor country on the continent of Europe, having acquired enormous property holdings for which it had made little or no real payment. It held control of banks and key industries throughout Europe, with the exception of the few neutral nations. And from the vaults and safety deposit boxes of banks in occupied countries, it had taken securities representing investments in still other world areas.[34] However, it had

[34] For the way the United States government prevented Axis nations from profiting from the seizure of American securities or other securities payable in the United States, see U. S. Treasury Department, *Administration of the Wartime Financial and Property Controls of the United States Government* (1942), pp 20-24

already been warned that the United Nations "reserved the right" to dispossess the Axis Powers of property rights and interests acquired in occupied or controlled areas, even where the transactions had been given the semblance of legality and the appearance of voluntary action.[35]

So far as industrial enterprises are concerned, Germany made the restoration of property exceedingly difficult by the way it reorganized the industries of occupied or satellite countries. Having gained control of foreign companies, it attached and subordinated them to some big German concern—in the role of sales agencies, branch plants, or subsidiary companies. For example, it consolidated iron and steel works and related industries throughout Europe under control of the mammoth amalgamation known as the Reichswerke Hermann Goering. It also created "mixed" companies financed partly by German capital (often paid in patent rights and licenses) and partly by capital from occupied countries. S. A. Francolor, in which the Germans took a 51 per cent interest, was one of these—formed by joining four French companies with the I. G. Farbenindustrie.[36] With the war in Europe at an end, the work of unscrambling these complex organizations began.

With regard to looted securities, gold, and the like, the Germans have tried to escape detection and loss by sending such property to neutral countries, but the governments of Switzerland and Sweden have signed agreements with Britain, France, and the United States, providing for the utilization of this loot for the benefit of countries that had been occupied by the Germans. Switzerland agreed to liquidate assets belonging to Germans in Germany or Germans dangerous enough to be repatriated to Germany, and to put 50 per cent of the proceeds at the disposal of the allies. In addition, Switzerland agreed to release to the allies 58 million

[35] London declaration signed by 18 United Nations, Jan. 5, 1943. See Royal Institute of International Affairs, *Occupied Europe* (1944), p. 66, quoting from Cmd 6418 (1943). Similar declarations were made earlier by some of the invaded countries, Antonin Basch, *Industrial Property in Europe* (1944), p. 25.

[36] For a fuller discussion, see United Nations Information Office, *The Penetration of German Capital into Europe* (1942); also references cited above

dollars of gold acquired in war trade with Germany, this gold to be divided among the countries from which it was taken. Sweden agreed that, of the estimated 375 million kronor of German property held there, it would make available to the allies 310 million kronor. This will include 35 million kronor of gold which the Germans took in occupied countries and used to pay for purchases in Sweden.[37]

Shorn of the securities and properties it seized during the war, Germany is again a net debtor on long-term account. It also has a large volume of short-term (clearing) debts to every nation that was unable to refuse such credit. Capacity to meet these obligations has been greatly reduced by war damage, by lack of co-operation among the occupying powers, and probably also by the dismantling and removal of many industrial plants. In fact, as a result of war destruction and postwar dislocation, Germany now lacks capacity to produce the exports required for meeting payment on necessary food and raw material imports, and is dependent on the allies for a large share of its food supply.

Other debtor countries of Europe. The postwar position of other European debtors can scarcely be estimated here except in very broad terms. They entered the war owing one another about 100 million dollars and owing the rest of the world about 4.4 billion dollars. Their aggregate foreign investments amounted to about 500 millions, to which they added a large accumulation of probably worthless short-term claims against Germany.

Among them are the countries of Eastern Europe that are now in the Soviet orbit—as satellite states or as integral parts of the U.S.S.R. Here there has been nationalization (expropriation by the national government) of foreign-owned enterprises and expropriation by the Soviet government, under the guise of reparation claims, of foreign and domestic properties that had been forcibly acquired and temporarily held by the Germans. There are also

[37] Agreements were signed in June 1946, *The Statist*, July 20, 1946, p. 64; Aug. 3, 1946, p. 108. The Swiss will retain 50 per cent of the proceeds from German assets to offset large Swiss claims against Germany.

Austria (now occupied) and Greece, countries whose foreign debt burdens, even before the war, were extraordinarily heavy. In Western Europe, Norway and Denmark were developing surpluses in their trade and service accounts prior to World War II, but both countries now face years when their international accounts will have to be balanced by borrowing—and both have debt records that will recommend them to foreign investors.

British Empire countries have improved their position—principally as against the mother country.

British dominions and colonies have been the principal beneficiaries of Britain's large wartime expenditures overseas. Practically all of them now have sterling balances in London far larger than

THE INTERNATIONAL POSITION OF BRITISH EMPIRE COUNTRIES, 1938-47[a]
(In millions of pounds sterling)

Country	Long-Term, 1938[b]			Long- and Short-Term, 1947		
	Obligations	Investments	Net Obligations	Obligations	Investments	Net Obligations (−) Investments (+)
India	555	2	553	223	1,228	+1,005
Canada[c]	1,326	371	955	1,761	826	− 935
South Africa and Rhodesia	276	—	276	151	35	− 116
Australia[d]	746	51	695	747[d]	211	− 536
New Zealand	144	1	143	148	94	− 54
Malaya	139	—	139	139	87	− 52
British West Africa	42	—	42	42	91	+ 49
British East Africa	31	—	31	31	81	+ 50
Palestine	4	1	3	4	117	+ 113
Eire	.	. .	. . .	. . .	191	. .
Others	160	6	154	163	300	+ 137

[a] Based on App. B tables. Subscriptions to Bretton Woods Institutions are not included.

[b] For 1938, data regarding short-term balances are not readily available, but if included would probably involve a reduction of 100 million pounds, more or less, in India's net obligations and much smaller reductions for the other countries

[c] For Canada the figures are for 1945 and are from Dominion Bureau of Statistics, *The Canadian Balance of International Payments, Preliminary Statement, 1946* (1947), pp. 43, 44.

[d] During the latter part of 1947 Australia had to pay off 85 million pounds of maturing bonds, thereby reducing both obligations and investments.

were customary in peacetime, and some of the dominions have repatriated loans formerly floated in London. The effects of these transactions on Britain's international financial position have been considered on pages 61-62 above. It remains to show their effects on the other members of the Empire. The table on page 76 gives a rough summary of the position of Empire countries in 1938 and in the summer of 1947.

Three British Empire countries are members of the Bretton Woods Institutions and have paid their subscriptions to the Fund and the 20 per cent called by the Bank. The international debt and investment position of the three countries with these payments included in the accounting is shown below, in millions of pounds:

1947	India	Canada	South Africa
Net obligations (−) or investments (+) excluding Fund and Bank	+1,005	−935	−116
Payments on Bank and Fund	480	365	120
Total	+1,485	−570	+ 4

In making country-by-country comparisons it should be noted that sterling balances are included in the figures for 1947, but are omitted for 1938, since they are not available for most countries. The small dollar balances held by these countries are also included in 1947, but not in 1938. Correction for these discrepancies would reduce the 1938 figures for net obligations—by about 100 million pounds in the case of India,[38] and by much smaller amounts in other cases. However, it would not change the general outlines of the picture. All the dominions and colonies were debtors in 1938 and, except in the case of Canada their principal creditor was Britain.[39]

By the middle of 1947 all of these countries had reduced the net amount of their external obligations. Some of them, principally India and Palestine, had accumulated sterling balances in excess of their indebtedness to Britain and the rest of the world, and thereby had become creditor countries.[40] Canada, the second largest

[38] It is not possible at the present time to show the international financial position of the two successor states of British India.

[39] See App. B tables for individual countries.

[40] A financial agreement between India and Pakistan provides that the sterling balances will be distributed between the two dominions in the ratio of their note circulation *The Economist*, Dec. 20, 1947, p 1016.

lender to foreign governments in the postwar period, has scaled down its net indebtedness to the British by repatriating an appreciable share of the Canadian securities formerly held by Britain and by lending Britain 1,250 million dollars. In addition it has extended loans totaling approximately 600 million dollars to other countries.[41] However, the foreign obligations of Canada, long- and short-term, still are well in excess of its foreign investments.

How the Empire countries will use the large balances due them in London is an unsettled question. Considerable amounts of sterling will continue to be held as currency and banking reserves, commercial balances, and the like. Some will be spent for British machinery and other imports as rapidly as Britain can provide such goods. The difficulty in the postwar position of these countries is that all of them must look for payment to the same debtor. This debtor, Britain, is a country whose commodity exports for many decades have fallen short of meeting payments for imports. The resulting trade deficit was met in part by receipts of interest and dividends, receipts that were far larger in the past than they are likely to be in the future. Therefore, Britain will need to expand the volume of exports used in the purchase of current imports and will find it difficult to supply exports for the redemption of its sterling debts.

Latin American countries have reduced the net amount of their foreign indebtedness during and since the war.

During the war these countries exported much more than in normal times, supplying strategic and essential materials to the United States and other United Nations in unprecedented amounts. But a shortage of American and British manufactures and shipping prevented any marked rise in their aggregate imports until 1944. Argentina's imports, in fact, declined sharply.

Largely because of this shift in trade, sterling and dollar balances have accumulated to the credit of Latin American countries. These balances have been reduced from time to time by gold purchases,

[41] For details, see Bank for International Settlements, *Seventeenth Annual Report*, p 122.

by the repayment of long-term debt, and by the purchase of foreign enterprises operating within their borders. But in spite of such reductions, the foreign exchange assets of the 20 Latin American republics increased sharply. Rising from 350 million dollars in 1939, they stood at about 1.7 billion dollars in May-June 1947—after heavy imports in the early months of 1947 and Argentine repatriations had scaled them down from the peak reached in 1946. Meantime, the gold holdings of Latin America had increased from some 730 million dollars in 1939 to more than 2 billions in 1947.[42] Of their 1.7 billion dollars of foreign exchange, some 360 millions or more represented blocked sterling; 1,131 millions represented dollar balances in American banks; and the remaining 200 millions, more or less, probably included some additional dollars as well as other "hard" and "soft" currencies.

Argentina, a major exporter of foodstuffs, turned some of its war profits to the improvement of its international financial position.

(1) It has utilized (or earmarked) approximately 983 million dollars of foreign exchange for the redemption of foreign debts and the repatriation of foreign-owned enterprises, as follows:[43]

With	600 million	dollars of sterling it will repurchase British-controlled railways valued in 1938 at 1.2 billion dollars.
With	45 million	dollars it repurchased the French-controlled railways valued in 1938 at 133 million dollars.
With	95 million	dollars it repurchased the International Telephone and Telegraph Company investment.
With	130 million	dollars it repatriated (at par) the last of the dollar bonds of the national government.
With	100 million	dollars it repatriated sterling bonds held in England.
With	13 million	dollars it repatriated Swiss franc bonds held in Europe.
In all,	983 million	dollars will extinguish long-term obligations that in 1938 amounted to almost 1.7 billion dollars.

[42] Based on National City Bank, *Monthly Letter*, August 1947, p. 93, *Federal Reserve Bulletin*, October 1947, pp 1319, 1324.

[43] "Argentina's Planned Economy and World Trade," *American Perspective*, June 1947, pp. 121-24; *World Report*, Mar 4, 1947, p. 19.

(2) Argentina has made loans totaling 3,460 million pesos (1,030 million dollars at the official rate of 29.77 cents = 1 peso) to European and South American countries, but data showing the utilization of the loans are not available.[44]

Borrowing Country	Millions of Pesos	Date of Loan
Czechoslavakia	150	December 1946
Finland	60	February 1947
France	600	December 1946
Italy	500	March 1947
Spain	750	October 1946
Bolivia	700	March 1947
Chile	700	December 1946
Total	3,460 = 1,030 million dollars	

These repatriations and loans when the transactions are completed, will have reduced the *net* amount of Argentina's long-term obligations to foreigners from almost 3.2 billion dollars in 1938 to approximately 450 millions in 1947. Also, Argentina held some 300 to 700 million dollars of foreign exchange, an amount roughly equal to the net amount of its long-term obligations.[45] The transition from debtor to creditor status was imminent or had already been accomplished by midyear 1947.

Other Latin American republics have made some improvement in their international financial position.[46] Brazil, Mexico, Colombia, and Panama have arranged favorable settlements with British and American holders of their government bonds. Under these settlements the Mexican government debt was pared down from about 230 million dollars to 46 millions, and the Brazilian from 837 millions to about 521 millions under the plan accepted by most bondholders. Colombia and Panama have negotiated reductions in

[44] *American Perspective,* June 1947, pp. 125-31; Bank for International Settlements, *Seventeenth Annual Report,* p. 124.

[45] Gold and foreign exchange together amounted to 1,355 million dollars, of which 623 millions represented gold held at home by the central bank and an unreported amount represented gold held abroad by the central bank and gold belonging to the Argentine Stabilization Fund. Argentine short-term deposits in American banks stood at 252 million dollars on May 31, 1947

[46] This paragraph is based on Elizabeth Hannan, in appendix to *Dolares en la America Latina* (1944), pp. 171-72. On Mexico's settlements for expropriated properties, see pp. 151-54 below.

the interest rates on their government bonds. New investments also appear in the accounts of some of these countries.

These improvements in their balance sheets have been partially offset by new obligations incurred during the war. (1) Brazil has borrowed from the Export-Import Bank for the development of a steel industry, and for railways, highways, port improvements, and the like. Mexico has borrowed for highway construction, Uruguay for a big hydroelectric project, and other countries have borrowed for various purposes. On June 30, 1947 the outstanding amount of loans from the Export-Import Bank to all Latin American countries was 247 million dollars. (2) Loans, credits, and advances made by other agencies of the United States government to Latin American republics amounted to 327 million dollars.[47] (3) Finally, there has been some expansion in direct investments in Latin America.

In addition to the loans and advances considered above, Latin American countries have received, free of charge, very substantial foreign aid in expanding their productive capacity. Sometimes the funds required have been furnished by the United States alone, sometimes jointly with the governments concerned, the purpose of the United States being to facilitate procurement of strategic materials during the war.

In the summer of 1947 the net obligations, long- and short-term, of the 20 Latin American republics to the rest of the world stood at approximately 5 billion dollars, a considerable reduction from the (long-term) figure of 11 billions for 1938. Gold holdings had also increased, standing at more than 2 billion dollars as compared with 730 millions in 1938. The Argentine balance sheet for 1947 shows the most pronounced improvement, with foreign investments (principally intergovernmental loans) closely approximating foreign obligations. Other Latin American republics had improved their international financial position, but all of them except Argentina were clearly in the debtor group.

[47] U. S Department of Commerce, Clearing Office for Foreign Transactions, *Foreign Transactions of the U. S. Government—Foreign Credits, June 30, 1947*, Oct. 8, 1947, pp. 5, 8, 11.

In China and the Middle East there has been some reduction in net obligations to foreigners.

China has been freed of the large claims formerly held against it by the Japanese, and the new obligations incurred to the governments of the United States, Great Britain, and Canada are relatively small. Civil war is preventing any appreciable inflow of foreign capital since the defeat of Japan. Chinese-owned foreign investments are concentrated principally in Pacific areas where war damage has been heavy. In addition to these investments China has some foreign exchange balances, dollars and sterling, including the remnants of loans extended by Britain and the United States, prewar Chinese balances frozen in the United States, and wartime flight capital. The direct investments that foreigners still hold in China are a potential source of reconstruction and development capital for the future, since British and other foreign firms with business properties in China undoubtedly will rebuild some or all of their devastated properties when peace is restored and conditions are stabilized.

In the Middle East and North Atlantic, sterling balances are accumulating in countries where allied soldiers have been stationed and where there have been allied purchases of strategic materials. Egypt has around 470 million pounds of blocked sterling, Iraq has 100 millions, and Iran 22 millions. The amount held by Turkey is relatively small, since Turkey has received payment in gold for its export surplus to Britain.

The Middle East and also many African colonies have profited from lend-lease and mutual aid in the construction and improvement of highways, railways, communication systems, and other productive facilities. But developments of this kind were classed as war expenditures and do not affect the international financial position of the receiving country.

PART II

DEVELOPMENTAL CAPITAL ABROAD: OPPORTUNITIES AND PROBLEMS

The second division of this study presents a brief survey of the uses made of foreign capital in the development of world resources. In addition, it points to the opportunities and demands for foreign capital likely to appear in the future. The discussion is in terms of the resources exploited, the goods and services produced, and the attractions—or obstacles—of various kinds sometimes offered by foreign countries. It also takes account of the responsibility of the investor for the success or failure of his venture.

Part II takes account of the overt acts committed and the policies adopted by foreign governments that, whether intentionally or not, affect the foreign investor. The importance of a preliminary study of a proposed project is stressed, including careful consideration of the terms of the loan or concessions contract, the probable degree of risk involved, and the legal, social, and political obligations that may attach to the investment. The role of the United States government in the field of foreign investment is not considered here but is the subject of discussion in Part III.

CHAPTER V

FOREIGN CAPITAL IN THE DEVELOPMENT OF WORLD RESOURCES

The international migration of capital has facilitated development of the world's natural resources and has been instrumental in transmitting the direct effects of the industrial revolution from area to area. Thereby it has helped to increase the quantities and varieties of goods and services generally available and has raised living standards for some or most of the world's populations. In turn, the effectiveness with which foreign capital could be utilized has been determined in considerable measure by the human resources of recipient areas. The purpose of the present chapter is to indicate the principal resources that have proved attractive to foreign capital and to sketch briefly the participation of the various investing countries of the world in their development.

I. AGRICULTURAL RESOURCES

While there are roughly 57.5 million square miles of land surface on the face of the earth, only about 3.5 millions are used for cultivated crops. Climate, soil, and topography are factors that limit the agricultural activities and production of nations. It is estimated that by irrigation, drainage, adaptation of crops to less hospitable areas, and by better methods of cultivation, another 3.5 million square miles (or perhaps more) might be brought under cultivation.[1] But by far the greater part of the earth's land surface is too wet, too dry, too cold, too mountainous, or has soil too poor to produce crops. Some areas have far more than their proportional share of good lands, some have less. But the present distribution of plant and animal life is not altogether dependent on nature. It results in part from improvements introduced by man—brought

[1] Estimates of O. E. Baker, of the University of Maryland Carl L Alsberg, of the Food Research Institute, has estimated that perhaps an increase of as much as 10 million square miles might be realized by the application of labor and capital.

about by scientific seed and stock selection and breeding, and by the use of capital for machinery, fertilizers, insecticides, irrigation projects, and the like.

The use of capital in agriculture varies widely from one area to another. For the United States as a whole, the value of farm implements and machines alone averages approximately $360 per man or boy employed in agriculture. An "average" crew of 100 farm workers operates with 18 tractors, 48 automobiles, and 1,700 horses and mules.[2] Canada, Australia, New Zealand, Argentina, and parts of the U.S.S.R. are also large users of farm machines, and in normal times agriculture in Western Europe makes intensive use of both capital (equipment and fertilizer) and labor, particularly in the dairy and meat-raising districts.

In many other countries, on the contrary, little capital was employed, even before World War II; and the supply has been reduced by the pillage and the destruction of war. In Eastern Europe wooden plows pulled by oxen or horses were common before the war, and little use was made of power-driven machinery except for threshing.[3] In India, China, and Japan the tools used by native farmers were even more primitive.

On the whole, little foreign capital is used directly in financing agricultural enterprises.

Agriculture as a rule is not well adapted to absentee ownership and control, nor is the agriculturalist likely to turn to foreign financial agencies when in need of borrowed funds. However, exceptions immediately come to mind. A considerable part of certain crops, such as rubber, sugar, and bananas, is produced by corporations operating foreign concessions. Also at various times funds have been borrowed in foreign markets by the agricultural mortgage banks of some countries—and for that matter, by other banks—furnishing the basis for domestic credits to agriculture. A number of such loans were placed in the United States during the middle

[2] Based on census data and on National Industrial Conference Board, *The Economic Almanac for 1943-44* (1944), pp. 223-24. The figures cover all farms, ranging from one-mule farms of southern share croppers to the large-scale, highly mechanized farms of the West and Middle West.

[3] Doreen Warriner, *Economics of Peasant Farming* (1939), pp. 117, 126.

and later 1920's by European banks, particularly German. But their aggregate amount was of minor importance when compared with other types of foreign investments, or with the aggregate value of crops produced throughout the world or in the borrowing countries. Indirectly, foreign capital has contributed greatly to the expansion of agriculture.

The cereals exemplify the importance of domestic capital in agriculture. The world's great cereal crops of wheat, rice, corn, oats, rye, barley, millet, and some minor and mixed grains are products of many climates and soils. One or more of these grains can be grown wherever any cultivated crop is produced. Taken together, they occupy roughly 2.1 million square miles of land out of the 3.5 millions planted to all cultivated crops. Their total production is approximately 700 million metric tons. By far the greater part of this aggregate is grown by "self-employed" workers operating millions of individual land holdings of small or medium size. Little foreign capital is used directly in its production.

Crop loans and tenant farming are common among grain growers everywhere, but the capital involved comes principally from domestic sources. On the other hand, the foreign funds used in railway building have increased the world's output of grain by lowering transportation costs and making new lands readily accessible. Foreign holders of railway securities, in turn, have benefited from the consequent development of remunerative freight traffic. British capital put at the disposal of the government of India also aided the construction of irrigation works and thereby aided in the production as well as the distribution of rice, India's principal food crop.

Cane sugar from foreign-controlled plantations competes with domestically-financed beet sugar.

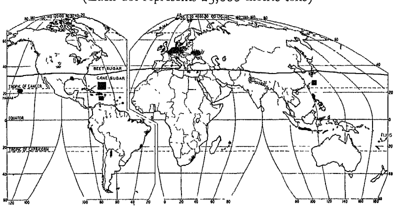
The cheapest source of sugar is cane grown in tropical and subtropical areas where there is plenty of moisture. India is the largest producer of cane and consumes what it produces. Java and Cuba are the big exporters. Technical improvements developed in various agricultural experiment stations during the 1920's greatly

increased the per-acre yield and total output of this crop and reduced costs. New disease-resistant types of cane were furnished to planters, and advantages to be gained from better methods of cultivation were demonstrated. At the same time industrial chemists and engineers invented better ways of extracting sugar from both cane and beets.

Foreign capital has gone into the cane-sugar industry in sizable amounts—for loans to planters and for the purchase and operation of plantations, sugar mills, and sugar railways. The United States is the biggest investor in foreign sugar, with almost 300 million dollars placed in Latin America—principally in Cuba—while another 22 millions of American capital controlled about one third of the industry in the Philippines in 1940. Dutch investors had

WORLD PRODUCTION OF SUGAR

(Each dot represents 25,000 metric tons)



Note: Average annual production for 1937 and 1938.

roughly 250 million dollars in Netherlands Indies (principally Java) sugar production at the outbreak of World War II. British and Chinese investors had smaller amounts in the Indies. The British have investments in South African sugar; the Chinese have sugar plantations in Siam; and the Belgians some in the Congo.

For various reasons that may be summarized under the general term of economic nationalism, consumption of domestic beet sugar

instead of imported cane has been encouraged in most European countries (and of both beet and domestic cane in the United States). During the 1930's about 34 per cent of the world's sugar was from beets. Most of this crop was produced and consumed in Europe and the Soviet Union—the United States accounting for practically all of the remainder.[4]

The map on page 89 shows where the world's sugar was produced in 1937-38. The war years have not brought marked changes in most areas, but Cuban production has increased 60 per cent, and smaller increases are reported for a few other countries. The Japanese invasion of Pacific islands disrupted the industry there.

The cane sugar industry uses foreign management and foreign funds in areas where capital is scarce and labor plentiful. In contrast, the beet sugar production of European countries and the United States is financed largely from domestic sources.

Vegetable oils—from the tropics and warmer subtropics—utilize some foreign capital.

Approximately 11 million metric tons of vegetable oils, were annually harvested throughout the world prior to World War II—to be used as food and as raw material for the soap, paint, and other industries. World production of the principal oils obtained from seeds, fruits, and nuts is shown below for the typical year 1936, in thousands of metric tons of oil.[5]

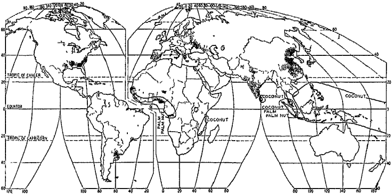
Herb and shrub crops:		Castor oil	148	Tree crops.	
Cotton seed	2,336	Hemp seed	82	Coconut	1,057
Peanut	1,926	Perilla	47	Olive	1,060
Linseed	1,104	Mustard seed	23	Palm and palm kernel	845
Soybean	920	Poppy seed	23	Tung	103
Sunflower	591			Brazil nut	29
Colza and rape	495	Total	8,094	Babassu	28
Sesame	399				
				Total	3,122

The outstanding importance of hot or warm climate in the production of these crops is indicated by the map on page 91. Not less

[4] U. S Department of Agriculture, *Agricultural Statistics 1944*, pp. 98-99.
[5] International Institute of Agriculture, *Oils and Fats: Production and International Trade*, Pt. 1 (1939), p. 335. They understate total production, since they omit domestic consumption for such large producers and consumers as China and India.

than 43 per cent of the world total is grown in Asia, where the peanut and palm compete for first place, and soybean production is large. Africa ranks second. China and India are the largest producing countries.[6] Palms require high temperatures and heavy rainfall. Olives are restricted almost entirely to countries bordering the Mediterranean. Tung oil is produced in the southern provinces of China, and recently in the United States along the Gulf of Mexico and the Atlantic coast of Florida. Most of the herbaceous and bush crops thrive best in a tropical climate, although all of them will grow in the temperate zone.

THE VEGETABLE OIL CROP OF THE WORLD
(Each dot represents 10,000 metric tons, in terms of oil)



Note: Average annual production for 1937 and 1938.

An influence of much less importance than climate in localizing production was the nationalistic legislation of the 1930's. This included the preferential tariff treatment that Britain, France, and the United States granted to imports from their dependent areas;

[6] The total crop reported for each continent, and the principal crops of each were as follows in 1936—in thousands of metric tons, in terms of oil.

Asia	*4,453*	North and Central America	*1,150*	South America	*1,018*
Peanut	1,042	Cottonseed	777	Linseed	694
Soybean	738				
Palm and coconut	1,062			Europe	*1,003*
		U S S R	*1,101*	Olive	663
Africa	*1,422*	Sunflower	463		
Palm	625	Linseed and cottonseed	500	Oceania	*140*
Peanut	477			Coconut	137

Italy's tariff to protect its olive growers and mills; and Germany's oils-and-fats monopoly, created to encourage the German whaling industry and expand vegetable-oil production at home and in neighboring Balkan countries.

Few vegetable oil crops are sufficiently remunerative to warrant large-scale employment of foreign capital and management. In general, the crops are grown on farms or peasant holdings rather than plantations. Coconut oil and palm and palm kernel oil are the notable exceptions.

American investors had a stake of several million dollars in the coconut plantations and mills of the Philippines at the outbreak of World War II. The British had a large interest in coconut oil and oil-palm plantations in Malaya, oil-palm plantations in the Belgian Congo, and some oil-palm holdings in the British Cameroons and Sierra Leone. The Dutch controlled a dominant share of the palm-oil industry in the East Indies and were joint owners with the British in Congo oil-palm plantations, mills, and river boats. French capital was invested in the coconut plantations of Indo-China, French West Africa, and French Togoland, and both the French and Japanese had some investment in the palm-oil production of the East Indies.

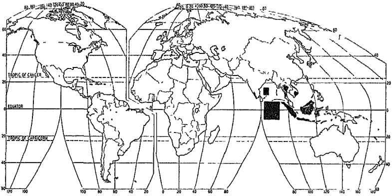
Production in colonial areas has been assisted by transportation and communication facilities and irrigation works—financed largely by loans floated in London, Paris, and other European markets, and guaranteed by the governments of the respective mother countries. For example, railways and motor roads built by the French have brought increased production and export of Senegalese peanuts. Construction of open wells to supply drinking water in French West Africa has increased the cultivation of peanuts in that area. Government-financed irrigation works have encouraged production of cotton (with its by-product of cottonseed oil) in the Anglo-Egyptian Sudan.[7]

[7] S. Herbert Frankel, *Capital Investment in Africa* (1938), p. 339, Lord Hailey, *An African Survey*, (1938) pp. 1050-53.

About half of the world's rubber, prior to World War II, came from tropical plantations under foreign control.

While rubber may be obtained from the sap of many trees, shrubs, vines, and herbs, commercial production is limited principally to Hevea rubber grown in the Dutch East Indies, Malaya, and other tropical countries. Minor amounts come from a Mexican shrub (guayule). The map on this page shows the distribution of the world crop. Native production furnished about half of the world's annual supply prior to World War II. The rest came from great plantations controlled by Dutch, British, American, and other foreign capital.

WORLD PRODUCTION OF RUBBER
(Each dot represents 1,000 metric tons)



Note: Average annual production for 1937 and 1938

When the Japanese invasion cut the United Nations off from the Far Eastern plantations, development of synthetic rubber made up the deficit in the world's supply—production in 1944 hitting a peak of 900,000 long tons. It has been estimated that world production of natural rubber in 1948 will amount to almost 1.5 million long tons, and that the capacity of synthetic plants kept in opera-

tion will be reduced to 600,000 tons. Against this productive capacity of about 2.1 million tons per year, world consumption is expected to be only about 1.5 million tons per year.[8] The effect of this development on investments in the Far East is a matter of uneasy speculation.

In the aggregate, this investment amounted to some 700 to 800 million dollars prior to the Japanese invasion of Malaya and the Netherlands Indies. Britain's stake in rubber was put at around 300 to 425 million dollars in various estimates, the greater part being in British Malaya and the rest in Burma, Siam, and the Dutch Indies. Dutch capital in rubber has been put at 267 millions, all in the Indies. The American investment was around 60 millions—divided among the Indies, British Malaya, the Philippines, Brazil, Mexico, and Liberia. The French investment amounted to around 55 million dollars, of which 45 millions were in French Indo-China. China with plantations in Malaya, the Netherlands Indies, and Siam probably was the investor of next importance, but information is not available concerning the amounts involved. Germany and Japan both had a small stake in rubber.[9]

A few other crops, all from the tropics or warmer subtropics, have attracted foreign capital.

Tea from British-controlled plantations in India and Ceylon has accounted for more than half of the world's annual export of tea.[10] British and Dutch capital has also shared in producing the relatively small crop of the Netherlands Indies. French companies grow a high-quality product on the plateaus of French Indo-China,[11] and European capital largely British, is invested in tea plantations in some of the African colonies—Nyasaland, Kenya, Uganda, the French Cameroons, and the Belgian Congo.[12]

[8] *World Report*, May 20, 1947, p 36

[9] The British estimate of 425 million dollars is from Sir Robert M Kindersley, "British Overseas Investments, 1938," *The Economic Journal* (1939), pp. 684, 685, 690; for other estimates given see Helmut G. Callis, "Capital Investment in Southeastern Asia and the Philippines," *The Annals*, March 1943.

[10] Henry C Taylor and Anne Dewees Taylor, *World Trade in Agricultural Products* (1943), p. 81.

[11] International Institute of Agriculture, *World Trade in Agricultural Products* (1940), p. 364.

[12] Hailey, *An African Survey*, p. 924.

Coffee culture is primarily a native industry. However, some American capital is invested in the Colombian crop, some British capital in Siamese and Brazilian plantations. Dutch capital controls plantations in the East Indies, and the French have some in Indo-China.[13]

Bananas have become important in world trade through the activities of American venture capital, with some British participation. At the present time American fruit companies, interested principally in the banana crop, have an investment of 80 million dollars or more in Mexican, Colombian, Central American, and Caribbean Island banana plantations. They also have contract arrangements with independent growers in those areas and fleets of steamers to bring the fruit to market. European investors—French, Belgian, and British—control banana plantations in the Ivory Coast, Dahomey (French West Africa), and the Belgian Congo.[14]

Other crops. Prior to World War II Dutch and British plantations in the Netherlands Indies produced part of the spices and cinchona bark (for quinine) for which the islands have long been famous.[15] American capital was invested in Philippine abacá (for Manila rope). When the Japanese invasion cut the allies off from their principal sources of supply for these products of the Far East, the United States government co-operated with other American governments to encourage production in the American tropics. American corporations also had a share in this venture.

Minor amounts of foreign capital are used in producing sisal in Mexico, the Caribbean area, Uganda, and Tanganyika; chicle in Mexico, Guatemala, and Honduras; cacao in Uganda and the French Cameroons; and kapok and tobacco in the Netherlands Indies. Production of cotton in the Anglo-Egyptian Sudan is a joint project of government, private capital, and native labor.[16]

[13] Callis, *The Annals,* March 1943, J. W. F. Rowe, *Markets and Men* (1936), p. 29.

[14] Hailey, *An African Survey,* pp. 919-20.

[15] In 1939 the islands produced 91 per cent of the world's cinchona crop and 86 per cent of pepper exports.

[16] Frankel, *Capital Investment in Africa,* pp. 360-66. A British company owns and operates a large cotton plantation in Mississippi.

Considerable amounts of foreign capital are engaged in the merchandising, warehousing, ginning, and compressing of cotton and in the expressing of cottonseed oil in Latin American countries, Egypt, and the Far East; some is invested in crop loans; but the greater part of the investment is concerned with distribution and manufacturing processes rather than the growing of cotton.[17]

The world's timber resources and industries based on them are responsible for some international migration of capital.

While some six or seven million square miles of land originally in forests have been cleared for crops or for urban use, about 11.7 million square miles—roughly one fifth of the earth's land surface—still remain in forests. This includes some types of areas and trees highly important as sources of industrial raw materials.

The conifers, or soft woods, account for much the greater part of the foreign capital invested in timber and related manufacturing industries, and most of this investment has been placed in Canada. The Canadian total, including investments in the pulp and paper and woodworking industries, according to the Dominion Bureau of Statistics, was around 450 million dollars prior to World War II. Of this amount, 80 per cent was under American ownership and control, and practically all of the rest British.[18] Foreigners also had comparatively large holdings in the timber of Poland and Austria.

The teak forests of Burma, Siam, Indo-China, and the Netherlands Indies are largely under foreign control. British interests have a 15 million dollar investment in Burma and control more than 50 per cent of Siam's teak forests. The resources of Indo-China are a virtual monopoly of French firms. In the Netherlands Indies the teak forests are all state-owned and the lumber industry is a government monopoly.[19]

[17] The American firm of Anderson, Clayton & Co., in a prospectus dated Apr. 6, 1945, reported a net investment (including all classes of accounts) of 43 million dollars, placed in Egypt, Mexico, Argentina, Brazil, and Peru.

[18] *The Canadian Balance of International Payments* (1939), pp 174-77.

[19] Callis, *The Annals*, March 1943.

The beautiful hardwoods of the Philippines and tropical America have attracted some American capital and minor amounts from Britain. These woods furnish less than 3 per cent of the world's annual cut of saw timber. This is because of the great cost involved in finding and bringing to market a commercial supply of any one variety of wood in these mixed forests, and because the hardness of the wood makes it costly to cut and shape. The quebracho of Paraguay and Argentina—a vital raw material for the tanning industry—is under British control.

The grasslands have attracted foreign capital to the grazing and related industries.

Grasses cover a much greater area than forests, and like forests they have given way to cultivated crops in most places where climate, soil, and other physical factors have made this possible. In fact, some land that should have been left in grass is under cultivation.

Some vast regions that are classified as grasslands are so poor in soil and so inhospitable in climate that they support only sparse populations—human and animal. This is true of the broad belt of tundras that extends across arctic America and Eurasia, and of mountain areas with similar climate and soil—such as the high, cold plateau of Tibet. It is also true of desert regions (in North America, Australia, Africa, and Asia) where grasses come and go with the infrequent rains.

Somewhat more useful to man are the savannah regions with their tall tough grasses, south of the Sahara in Africa, and in the Orinoco valley of Venezuela. Here a hot rainy season of three to six months alternates with a hot and very dry season. Agriculture is precarious, and the raising of cattle—poor in quality—is the principal agricultural industry.

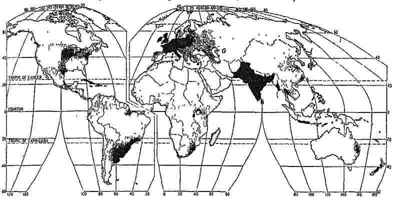
Two general types of grasslands are of considerable economic importance. Though widely different in character, both are located in the middle latitudes. (1) The temperate steppelands in the dry interior of the several continents, with their cover of relatively

short grasses, have furnished a basis for the major part of the world's great meat-producing industries. In the Americas they occupy considerable space in western United States and Argentina, and extend into Mexico, Uraguay, Paraguay, and southern Brazil. In Africa they stretch across the southern tip of the continent and up into Rhodesia. In Australia they are located in the southeastern part. In Eurasia they extend east from the Caspian Sea in a narrow strip that lies north of the desert regions and circling the Gobi Desert pushes south into China—where pressure of population has forced the cultivation of such land in spite of famine in frequent drought years. (2) In the moist, mild lowlands of the British Isles, Holland, and Denmark, and a similar area in western Oregon, Washington, and a section of Chile, the nutritious grass cover that is green most of the year has encouraged development of a highly efficient dairy industry. By-product skim milk from this industry explains the importance that some of these areas have attained in growing world-famous pork products.

Cattle, sheep, and other meat and dairy animals are produced in mixed farming areas near prosperous centers of population as well as on ranches and dairy farms. There is also a very large cattle population in crowded India where the animals are poor milk producers—valued principally for the work they perform and for their hides. The map on page 99 shows the distribution of the world's cattle, with its great concentration in Argentina, the United States, the North Sea section of Western Europe, and in India.

A map of the world's sheep population would show greatest concentration in Australia, with the U.S.S.R. and the United States ranking second and third. A world map for hogs would show concentration in the United States, Germany, and Brazil, and also in China where the long-nosed razorbacks provide the bristles important among China's exports, as well as pork. Few or none would be shown in great areas of Asia and Africa, occupied by Mohammedans and Jews whose religions prohibit consumption of pork.

WORLD DISTRIBUTION OF CATTLE
(Each dot represents 100,000 head)



Note: Average cattle population (including buffaloes) in 1937 and 1938.

The world's dairy industries depend primarily on domestic capital, but production of beef and mutton and their world-wide distribution depends heavily on foreign capital.[20] The investment of British and American companies in packing-house plants in South America, Australia, and New Zealand amounts to some 200 million dollars or more, with some 20 million dollars or more in foreign sales organizations. British interests also have more than 20 million dollars in South American cattle ranches and sheep farms, principally in Argentina, and additional amounts in Oceania.

II. MINERAL RESOURCES[21]

Unlike agricultural production, mining can be carried on only where minerals have been deposited by nature. Moreover, the

[20] Based on Simon G. Hanson, *Argentine Meat and the British Market* (1938), pp. 207, 237, *Standard Statistics Records*, and on an unofficial report in Department of Commerce files. During the 1880's British capital was invested in cattle ranches and packing plants in the United States, but most of those investments have long since been sold to American purchasers.

[21] This section is based principally on U. S. Bureau of Mines, *Minerals Yearbook, 1943* (1945); T. S. Lovering, *Minerals in World Affairs* (1943); C. K. Leith, J. W. Furness, Cleona Lewis, *World Minerals and World Peace* (1943), pp. 34-38.

distribution of the world's economic mineral deposits appears to be haphazard in manner and limited in extent. Some large areas have few mineral deposits of economic importance, while other areas have many. Some types of minerals are widespread throughout the world, others are concentrated principally in a very few deposits. In all only a small fraction of 1 per cent of the earth's surface is underlain by mineral deposits of economic importance.

Minerals are indispensable to industry—providing the raw materials from which machines are made and the power for running the machines. They also provide many of the materials required for the chemical and fertilizer industries, many kinds of abrasives, and the stones and earthy products used in the ceramic industries and in the manufacture of many building materials. Approximately two thirds of the world's mineral production are used by the industries of the producing countries. In 1938 about 10 per cent of the total capital invested abroad by all nations was invested in the production and distribution of minerals.

Little foreign capital has gone into coal production.

Coke from coal is the basis of the iron smelting industry. With a view to economy in transportation costs, the heavy industries—blast furnaces, steel mills, and large steel fabricating plants—are concentrated in coal-producing regions with easy access to coking coal and coal for power production.[22] That is to say the location of the world's heavy industries has been determined by the distribution of the more important coal fields.[23] Probably the basic importance of coal for domestic industry explains the fact that in practically all coal-producing countries, domestic capital controls the industry.

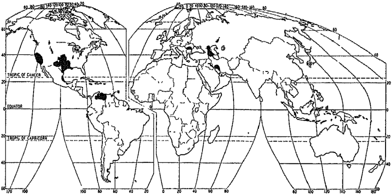
[22] It requires only a ton of coal (reduced to coke) to smelt a ton of good iron ore, but it takes two more tons of coal to convert the iron into steel manufactures required by consumers. Therefore iron ore usually goes to coal.

[23] Whether the development of atomic energy will affect the geographic distribution of industry is a question for the future.

Large amounts of foreign capital are invested in the petroleum industry.

Only two of the important industrial nations produce petroleum in major amounts. These are the United States and the U.S.S.R. Other petroleum producers of outstanding present or potential importance are located in the Caribbean area, the Middle East, and the East Indies—areas largely devoid of industrial development. But petroleum is so important, both in peace and war, as a motive fuel and a source of lubricating oils, that commercial control over a large part of the world's production is held by the great industrial nations.

WORLD PRODUCTION OF PETROLEUM
(Each dot represents 250,000 metric tons)



Note: Average for 1937 and 1938.

The British, Dutch, and Americans are the principal investors in foreign petroleum. In fact, the British government itself is the major stockholder in Anglo-Iranian Oil, a company with large oil investments in the Middle East. The British and Dutch, through their investment in Royal Dutch Shell, control an important share of the production and distribution of oil in the

Caribbean area, the United States, various countries of the Middle East, and the East Indies. French and Swiss capital are important in American oil, and French capital has a share in the oil of the Middle East. The large oil companies of the United States have investments in most of the oil-producing areas of the world.

The Soviet Union has permitted no foreign investment in Russian oil—except a relatively small Japanese concession in Sakhalin Island—and has had no capital invested in the oil of other countries. Since World War II the Japanese concession has been canceled, and the Soviet Union has shown considerable interest in foreign oil, particularly in Iran.

Some of the world's water power resources have been developed by foreign capital.

Hydroelectric power is important in the production of many metals such as the ferroalloys, aluminum, and tungsten and in the refining of such metals as nickel, copper, and zinc. Foreign capital has gone into the development of water power in Canada, Norway, Austria, Italy, and Japan. Recently it was reported that Swiss interests will help develop a hydroelectric project in northern Italy, taking payment in deliveries of power.[21] Africa, which is deficient in coal and oil, has great supplies of potential water power, particularly in the Congo Basin. There are also some large potential resources in South America and Asia, but thus far their development has not appeared to be of economic importance.

The great coal-producing nations have invested widely in iron ore and the ferroalloys.

In this age of substitute materials, modern industry has found no adequate substitute for iron and steel, or for some of the alloy metals used in the manufacture of special-purpose steels. Most of the countries possessing coal resources sufficient for maintaining a steel industry import some iron ore, and all of them import a considerable part of the alloy metals they use.

Iron ore in the major producing countries—United States, U.S.S.R., France, Sweden, and the United Kingdom—is under

[21] *World Report*, May 20, 1947, p.1.

domestic control, except for Belgium and Luxemburg capital in France.[25] Elsewhere foreign capital is important: American capital is invested in the mines of Chile, Cuba, and Brazil, and in development operations in Venezuela, Canada, and Labrador. German capital before World War II controlled Austrian and Rumanian mines. British capital is invested in Australia, Newfoundland, and Spain; French capital in Algeria and Spain. Japanese capital was placed in the Philippines and British Malaya.

Manganese, indispensable in the manufacture of all kinds of steel, is produced in important amounts in none of the highly industrialized countries of the North Atlantic area. Russia is the world's largest producer. India, of second importance in production, is the largest exporter. Other leading producers are the Union of South Africa, the Gold Coast, and Brazil, and many other countries produce the ore in sizable amounts.

The British are in commercial control of the extensive Empire and Egytian resources. Capital from the United States controls all production in the Gold Coast and Cuba and a large share of the Brazilian output. French capital has developed deposits in North Africa. Japanese companies were mining manganese in the Philippines and British Malaya in the 1930's.

Chromium, which has no subsitute for use in the so-called supersteels and is used in other kinds of stainless steels, comes principally from Turkey, the U.S.S.R., Southern Rhodesia, the Union of South Africa, Cuba, and a number of small but important producers. About half of the world output is taken by the metallurgical industries and the rest by the refractory and chemical industries. With one exception (the U.S.S.R.) the steel producing countries import the greater part of their requirements.

British capital controls chromium production in the Union of South Africa, Southern Rhodesia, India, and almost half the output of New Caledonia (also some in Yugoslavia until expropriated). American capital has a controlling interest in Cuba, the Philippines, in more than half the output of New Caledonia, and an important share in the British companies operating in Africa. At the outbreak of World War II German interests controlled about 22 per cent of

[25] Before World War II Luxemburg capital was invested in German iron mines (in the Saar), and the Germans had some leaseholds in Sweden.

production in Turkey[26] and some in Yugoslavia, while French capital accounted for a substantial part of the output from Greece and Yugoslavia, about one third of Turkey's production, and some in New Caledonia.

Nickel is also used in special-purpose steels—a use that accounts for about 60 per cent of world output. Canadian production (about 85 per cent of the world total) is controlled by British, American, and Canadian capital. Production in New Caledonia (about 10 per cent of the world total) is under Belgian and French control. The Soviet government controls output in the U.S.S.R., the third largest producer, and increased its holdings by taking over International Nickel's mines and installations in Finland in September 1944.[27] The small production of Norway is under British control. American capital is invested in Cuban operations and Brazilian reserves.

Tungsten, used in steel for high-speed cutting tools, is produced in many countries. Prior to the Japanese invasion, China (and Chinese capital) produced more than 50 per cent of the world supply. British capital controls production in Burma and Malaya—countries ranking second and third as producers—and also in Portugal, Australia, and Africa. American capital controls production in the United States and part of that in Peru and Bolivia.

Molybdenum and vanadium are also important alloy metals used by the large steel manufacturing countries. More than 85 per cent of the world's annual supply of molybdenum is produced in the United States by American capital.

Peru formerly was the leader in vanadium production, but a heavy export tax levied on the metal in 1932 discouraged production. Moreover, a method of recovering by-product vanadium from iron-smelter slag has recently resulted in a great increase in American production. American capital controls vanadium output in Peru as well as in the United States, two countries that together accounted for 80 per cent of world output in 1943. The rest of the

[26] Department of Overseas Trade, *Report on Economic and Commercial Conditions in Turkey,* April 1939, p. 28.

[27] For which it promised to pay the company 20 million dollars over a period of 6 years.

world's supply comes very largely from Southwest Africa and Rhodesia, where British capital is in control, with some American participation and (prior to World War II) some German.

Many other industrial minerals are financed and consumed largely by the big industrial nations.

Important among the nonferrous metals are copper, tin, lead, zinc, aluminum, and in recent years magnesium. The nonmetals of industrial importance include sulphur for the chemical industries, nitrates,[28] phosphates, and potash for the fertilizer and certain other industries.

The United States ranks first among the nations as a producer of most of these minerals and has a large stake in the production of other Western Hemisphere countries. It is almost entirely lacking in domestic tin and, although it shares ownership in Bolivian production, is in a decidedly weak position regarding this mineral. In normal years it has also imported a considerable part of the bauxite (the principal aluminum ore), bringing these imports largely from American-controlled deposits in British and Dutch Guiana.[29]

American capital has a controlling interest in the copper production of Canada, Mexico, Chile, and Peru; in the lead and zinc output of Mexico, South America (and of Poland also until the mines were nationalized). With the participation of Canadian capital, it also controls Newfoundland lead and zinc. It controls production of aluminum and chemical nitrogen in Canada; shares with Britain in the control of Chile's natural nitrate; has a large interest in the British-controlled copper mines of Africa[30]; and has minor holdings in the aluminum production of Italy, France, Norway, and the United Kingdom.

Great Britain is almost entirely lacking in domestic output of the group of minerals considered here. Only in chemical nitrogen

[28] See U. S Tariff Commission, *Chemical Nitrogen*, Rept. No. 114, Second Series (1937), particularly pp 15-16, 107-09, 118-20, 162.

[29] During the war domestic production of bauxite increased tremendously, output in 1943 being 16 times that of 1939.

[30] U. S. Bureau of Mines, *Minerals Yearbook, 1943*, p. 166.

and magnesium is Britain a large producer. The basis for the country's production of these two minerals is its coal output, which provides the power needed to obtain nitrogen from the air, by-product nitrogen from the production of coke, and magnesium from sea water. British tin, once an important export, now accounts for less than 2 per cent of the world total. But British capital controls production in many parts of the world: copper in Rhodesia, Spain, and Finland; tin in British Malaya, Siam, Burma, Nigeria, and the Union of South Africa; lead and zinc in Rhodesia, Australia, and Spain, and some in Yugoslavia until expropriated; manganese ore and some phosphates in Egypt; and (with Dutch collaboration) phosphates in Nauru. The British also have a minor interest in the copper of Canada and Mexico, the potash of the United States, and the chemical nitrogen of Norway and the Netherlands.

France is the world's largest producer of bauxite, largely under the control of French capital, and controls some bauxite output in Italy. It is one of the major producers of potash and has a well-diversified chemical-nitrogen industry. Prior to World War II French capital held (and presumably now holds) a major interest in the phosphates of North Africa and a minor investment in Norwegian, Bolivian, and Mexican copper. Its investment in the copper and bauxite of Yugoslavia has been expropriated.

Germany has large potash resources and before World War II was the world's principal producer of magnesium, chemical nitrogen, and aluminum (the latter from imported bauxite) and an important producer of lead and zinc. It had a minor share in the aluminum industry of Hungary and the potash industry of the United States and (together with Hungary) controlled a large share of the Yugoslav aluminum industry.

Netherlands capital controls the tin and bauxite of the Dutch East Indies. Belgian capital controls Congo copper and tin and a considerable share of the world's diamond output of both gem and industrial grades. The Netherlands and Belgium are both important producers of chemical nitrogen. Swedish investors controlled production of copper in Norway. Chinese investors had

large holdings in Malayan tin and a minor share in the tin production of Siam.

III. HUMAN RESOURCES

If the earth's population were evenly distributed over the land surface outside the polar regions, there would be some 42 inhabitants per square mile—including mountains, deserts, northern tundras, and tropical jungles, as well as arable land. But population is not distributed evenly. Over some large areas it is now spread extremely thin, even though some of these areas may in the distant future support large numbers of people. In other regions, with prevailing methods of production in agriculture and industry and the existing system of trade and transportation, there is serious overcrowding. Variations in the character of the people of different world areas are as great as the variations in numbers.

The number of the population affects the productivity of imported capital.

Sparsity of population discourages foreign investment in some areas. Brazil is one of the countries plagued by a shortage of labor. From the passage of its antislavery law in 1871 until a new policy was adopted in 1934 (put in force in 1938), the government actively encouraged the immigration of farmers and farm workers. For example, it assisted in the organized importation of Japanese contract laborers to meet the insistent demands of coffee planters.[31] It has been estimated that if the country's natural resources were fully developed, a population much greater than the present 42 millions might be supported. But development of these resources would require the immigration of capital as well as labor.

Labor shortage has been a limiting factor in the production of palm oil in the Congo, in the mining industries of the Congo, the Transvaal, and Southern Rhodesia, and in the development of

[31] J F. Normans and Antonella Gerbi, *The Japanese in South America* (1943), pp. 19-22; *Pacific Affairs*, September 1941, pp. 308, 314-16. On labor shortages handicapping rubber production in Brazil during and after World War II, see K E. Knorr, *Rubber After the War*, Food Research Institute, Stanford University (1944), p. 42.

French West Africa.[32] In fact, scarcity of labor is characteristic of most new ventures in Africa, where many factors combine to retard the growth of native populations. Economic and health conditions invite European colonization in very few areas, while the immigration of Indian and Chinese labor is discouraged or barred by law in many parts of the continent.[33]

The problem of "too many" people discourages the entry of foreign capital in some areas. Where there are too many people for the resources and present stage of development of an area—as there are in southern Asia, the Caribbean Islands, and parts of eastern Europe, particularly in eastern Poland, Italy, and some Balkan countries—wages are depressed and living standards are low. In India and North China so many people are dependent on unstandardized, small-scale agriculture that millions die of starvation when drought or flood brings crop failure.

Under these conditions foreign capital may not be able to find profitable employment in serving the people of the area—by establishing manufacturing plants or building public utilities. Therefore, direct investments in such areas are likely to be concerned with the development of mineral resources or the production of plantation crops. For example, half the people of the world live in Asia, but Asia produces less than 10 per cent of the world's manufactures, and is served by less than 10 per cent of the world's railway mileage. Plantation rubber, sugar, and tea and the minerals of Malaya, Burma, and the Indies have attracted large amounts of foreign capital.

In Malaya, where the climate is favorable for growing rubber, the great numbers of workers available, principally from China and India, made possible the area's supremacy in that crop when the seeds of the Hevea tree were smuggled out of Brazil. The

[32] Frankel, *Capital Investment in Africa*, pp. 310, 334-35, 369; Hailey, *An African Survey*, pp 603, 637, 681, 1114 Hailey attributes this in part to the drain of the slave trade and to the prevalence of diseases, insects, and malnutrition. A. M Carr-Saunders adds to this the maintenance of tribal and other customs that keep the families small, *World Population* (1936), pp. 295, 302-06.

[33] From 1860 to 1866 and from 1874 to 1911 indentured laborers were brought from India to work on the sugar plantations of Natal, and in 1903 South Africa experimented with imported Chinese labor. Hailey, *An African Survey*, pp. 319, 638

labor force available for the new plantations had long experience with rice culture and therefore was already schooled in the steady, painstaking habits needed for the job. This is in contrast with the disappointments experienced by those who have undertaken to grow plantation rubber in the Amazon Basin, where the tree originally grew. There the native population is sparse and has no tradition or liking for the steady employment of the plantation.[34] Careless tapping of the wild trees has reduced production from that source, and a blight that attacks the trees adds to the present difficulties of the industry. However, development of blight-resistant stock appears to be easier than the provision of an adequate labor force.

Habit and custom are factors affecting the employment of foreign capital.

In India the efficiency of production has long been affected by social custom and religion. The caste system of the Hindu has prevented the best use of man power, for it prohibits men of different castes from working together. The religion of the Hindu that teaches veneration for all life and prohibits the killing of animals further complicates the problem of utilizing India's resources. This doctrine prevents the necessary culling and best use of the country's large cattle population—for the Hindu cannot kill his cattle for meat, and when they die of old age, he gets an inferior grade of leather from their hides. India produces very little milk for its poverty-stricken people although its has 33 per cent of the world's cattle. In fact the keeping of cattle in such large numbers actually reduces the available food supply, because some land now reserved for grazing might otherwise be put under crops.[35]

[34] Ford obtained the concession for his large rubber plantations in Brazil in 1927. In December 1945 the United Press reported that the plantation—representing an investment of almost 9 million dollars—had been sold to the Brazilian government for $250,000. *Washington Post*, Dec 16, 1945. (The *Inter-American*, April, 1946, p 44, put Ford's expenditures in Brazil at 15 million dollars)

[35] Radhakamal Mukerjee, *Food Planning for Four Hundred Millions* (1938), pp. 131-32, 137, 144, 187, *Fortune*, November 1943, p. 195; *Foreign Commerce Weekly*, Jan. 8, 1944, p. 5.

In China for generations the people lived on the memory of their glorious past and therefore failed to keep abreast of current developments. This has impeded their progress, although they are energetic and willing to work and are leaders in the trade of the Pacific area. Their adherence to ancient custom has retarded the introduction of machine industry, and their educational system has given little or no attention to modern science and its application to agriculture and industry. Their transportation development was long retarded by traditions that forbade the railway builders from disturbing the graves and cemeteries that dot the countryside. They have exploited their minerals only in a small-scale way. Being out of touch with the West when steam power was put to work, they have been slow in using their large coal resources. Even for heating and cooking, they have "burned grass roots within a few miles of easily accessible coal."[36] Meantime development of the country's resources by use of foreign enterprise and foreign capital has been hindered for centuries by the country's intolerance of most things foreign.

In Turkey, where 75 per cent of the population are agricultural, mining and manufacturing industries find it difficult to recruit a labor force. At sowing and harvest time, the workmen leave the factories and mines and return to their villages to plow and harvest.[37]

In the well-developed industrial regions of Western Europe and Northeastern United States, a dense population is associated with high productivity and high living standards. This is made possible by highly specialized and efficient methods of industrial and agricultural production. With natural resources practically limited to climate, soil, and slope favorable for agriculture, Holland gained world-wide recognition for the excellence of its bulbs and nursery products, and the output of its dairies. Denmark excelled in dairy

[36] Owen Lattimore *Inner Asian Frontiers of China* (1940), p. 44. Lattimore explains that the taxes levied on the mining industry amounted almost to blackmail, officials being indifferent to the promotion of the industry.

[37] Department of Overseas Trade, *Report on Economic and Commercial Conditions in Turkey*, April, 1939, pp 20-21

products and bacon. Switzerland (with little agricultural land, and handicapped in heavy and large-scale industries by lack of coal) at an early date developed special skills in the manufacture of fine watches, clocks, jewelry, silk fabrics, and knit goods. Later, when long-distance transmission of electric power became possible, the country developed an aluminum industry based on domestic water power and imported bauxite, and also produced electricity for export. Germany, Great Britain, and Belgium have specialized in the heavy industries and textiles, utilizing their own coal resources and iron ore readily available from domestic or nearby foreign mines. Throughout this part of the world the skills, techniques, scientific discoveries, and inventions of the workers more than offset certain deficiencies in natural resources. They have constituted a primary resource of the area.

IV. INDUSTRIAL RESOURCES

The world's industrial resources—its factories and mills, transportation systems and other public utilities and its principal commercial and financial institutions—are largely concentrated in a few favored areas, with thin coverage in the rest of the world. These are areas where the population is sufficiently numerous and prosperous to warrant large-scale development of industry. Foreign capital has participated in financing these developments—on a direct investment basis in many cases, but also by the purchase of corporation bonds and shares and by loans to governments for developmental purposes.

Two industrial areas are of outstanding importance. One is the North Atlantic section of Europe that, by definition, takes in the British Isles and extends east into northern Italy, western Czechoslovakia, and Austria. The other includes the East North Central and Middle Atlantic states of the United States and a narrow adjoining strip of territory in Canada. Others that are of secondary importance are located along the west coast of the United States; in three South American areas (centered in Rio, Montevideo and Buenos Aires, and Valparaiso); at the tip of South Africa; in southeastern Australia; and in Japan.

Foreign investment in manufacturing is principally in branch factories and assembling plants.

In the main, manufacturing enterprises are established abroad to facilitate and expand the foreign sales of a company already operating in the domestic field. This explains the presence in the United States of foreign-controlled manufacturing concerns such as the British-controlled Lever Bros. (soap and margarine), American Viscose Co. (rayon),[38] Coats (J. & P.) Ltd. (thread); and two Canadian-owned manufacturers of distilled liquors—Seagrams Ltd. and Walker (H.) G. & W. It also explains the large foreign investments of General Motors, Ford, International Harvester, and other American manufacturing companies.

The principal purpose of these investments is the exploitation of foreign markets—in contrast with investments abroad in agriculture, mining and smelting, and in petroleum production, where exploitation of foreign resources is the principal purpose of the investment rather than the exploitation of foreign markets. In a comparatively few industries, for example in the Canadian pulp and paper industry, the jute industry of India, and the canning and processing of fish, factories are operated abroad to use foreign raw materials in the production of goods for the home market.

Figures concerning the location of American-controlled assembling plants and factories abroad show that in 1943 the American investment in such enterprises amounted to 2,153 million dollars, of which 878 millions were placed in Europe and 818 millions in Canada. Foreigners had about 2,500 million dollars invested in American manufacturing, but of this amount only 714 millions were in plants under foreign control.[39] The rest represented foreign holdings of the bonds and shares of American companies operated and controlled by Americans—securities that to some extent repre-

[38] Sold to Americans in the spring of 1941.

[39] Figures for American investments abroad in manufacturing are from U. S. Treasury Department, *Census of American-Owned Assets in Foreign Countries* (1947), p. 26; and for foreign investments in the United States, from *Census of Foreign-Owned Assets in the United States* (1945), p. 29, and Paul D Dickens, *Foreign Long-Term Investments in the United States 1937-39*. U. S. Department of Commerce, Economic Series No. 11 (1940), computations based on pp. 21, 70-73.

sented a hedge against the disturbed political and economic conditions in other countries.

Detailed information of this kind has not been compiled for other countries, but we know that the countries of western Europe had substantial direct investments in foreign manufacturing. British, French, and German chemical companies before the war had subsidiaries and branches in many countries. British, French, and Italian automobile companies, British and Dutch soap and margarine producers, and Czechoslovak glass and shoe companies had branches in many industrial centers. French metallurgical companies held a large interest in the iron and steel manufacturing of many European countries. A Dutch concern made incandescent lamps in many and far-distant places. In its main outlines this network of direct investment in manufacturing has not been greatly changed by the war, although there have been changes in ownership in some cases as well as wartime destruction of plant and equipment.

Foreign capital has helped build and operate the world's transportation systems.

Climate and terrain have prevented the building of railways in some areas, and in some the poverty of the population is a hindrance. China, with its many millions of poverty-stricken peasants, averaged only 2.7 miles of railway per thousand square miles of land area prior to the Japanese invasion. South American countries for the most part are sparsely covered. For Venezuela in 1938 the average was only 1.5 miles, Bolivia 2.4. Uruguay with 25.6 miles and Argentina with 22.2 were best supplied in South America. Cuba, with its many miles of sugar roads, averaged 70.2, the highest of all Latin America.[40] Prior to World War II Belgium ranked first in railway density with 226 miles per thousand square miles; Great Britain second, with 214 miles. The United States with 82 miles stood first in the Western Hemisphere, and Japan with 103 miles outranked any other country of Asia.

[40] Based on U. S. Department of Commerce, *Foreign Commerce Yearbook 1939*; *Statistical Abstract of the United States 1941*, p. 461; Katrine R. C. Greene, "Transportation . . ," Pt. 2 of the *Economic Survey of the Pacific Area* (1942)

The British have been leaders in building the world's railways, often pioneering in undeveloped areas to bring to market an increased and lower cost supply of some important foodstuff or raw material. In the early age of railway building they furnished part or all of the capital required for many roads on the continent of Europe and in the United States, and at the outbreak of World War II they still held the securities of some continental railways (particularly French) and some American. Their total investment in foreign and colonial rails in 1938 was estimated at 812 million pounds sterling. In addition a large part of their foreign government bonds represented funds furnished for railway construction or securities taken in exchange for railway issues.

In South America railway development has depended heavily on British capital. Most of the Argentine roads were built, and until recent repurchase by the Argentine government, most of them continued to be under British control. In Brazil the railways were originally built by British companies with Brazilian government guarantees. Later most of them were acquired by the Brazilian government in exchange for issues of its own bonds.

The British financed and built most of the railways of the Empire. They built and owned the early railways of India—but with interest and, in many cases, dividends, guaranteed by the Indian government. Following a change in policy in 1870, the Indian government began taking responsibility for the construction of new roads, although most of the required capital continued to come from London. The Indian government also began acquiring ownership of roads already built by exchanging its own securities for the outstanding issues of the companies. Finally, complete control of the roads was purchased by the Indians following World War II.[41] British investors financed a large part of the capital used in building the railways of Canada and in 1937 owned about two thirds of the Canadian railway securities held outside the Dominion.

The French have supplied a sparse railway net for their colonial possessions and also helped finance the limited mileage that serves

[41] See p. 59 above.

the Balkan area. They furnished a major share of the funds borrowed for railway development in Russia—all of which was lost to them as a result of debt repudiations following the revolution. They extended some large loans to a number of railroad companies in the United States prior to World War I—most of them liquidated during or soon after the war. And they still retain some important blocks of South American securities that represent funds originally furnished for railway building.

The American investment in foreign railways has always been considerably smaller than the British. It includes outright control of some mileage in Canada and a large portfolio of bonds and shares, but the American investment in Canadian railways in the late 1930's was only about half that held by British investors. American holdings also include direct investments in Cuba and Central America and the securities of other roads in these areas. Until the nationalization of the Mexican railways (1906-08), American investors also owned a very considerable mileage below the Rio Grande—and they still retain ownership of some 1,486 miles of steam lines.[42] American loan capital for the railways of other countries has been of relatively minor importance.

The same natural and economic conditions that have helped or hindered railway building in some parts of the world have also affected motor transportation. At the close of 1939 the United States, with an average of 4 persons to the car, was best supplied with motor vehicles. At the other extreme was Liberia with 12,000 persons to the car, China with more than 6,000, and India with more than 3,000.

Comparatively little foreign capital has been invested in the building of highways for motor transportation. This is partly because highways, except toll roads, are not investments that can be operated for private profit. If well considered in terms of the area to be served, however, they increase the wealth and taxable capacity of the area, benefiting its people and its government. In undeveloped countries their construction calls for the importation

[42] In June 1947 the Mexican government took over operation of 1,313 miles of the 1,486 owned by the Southern Pacific Co. *Standard Corporation Records*, P-S, August-September 1947, p 1340.

of foreign engineering services, road-building machinery, and even road-building materials such as cement and asphalt. Therefore, during the 1920's, when private loan capital was plentiful in the United States and big American construction companies were eager for foreign contracts, many foreign governments—principally in Latin America—negotiated dollar loans to finance road building. Other countries not suppliers of steam shovels, grading machinery, and the like, took little or no part in such loans.[43]

The airplane is taking the place of railways that have been planned but not built, bringing remote areas closer together. In ice-bound Canadian provinces it carries freight to and from mines formerly reached only by canoe in summer and dog team in winter. In South America it has cut the Lima-to-Iquitos journey from 40 days by land to 6 hours by air. In the jungles of New Guinea it has facilitated development of the Morobe gold fields—a week's journey from the coast by land, 25 minutes by air.

The bulk of the foreign capital used in developing air transport has been placed in Latin America. American capital is by far the most important, with the German companies strong competitors in South America until they had to abandon their investment or were expropriated during World War II. Of lesser importance in South America were the companies controlled by the French, Italians, and Dutch. British investment in South America was almost entirely absent. In the air transport systems of Europe and the countries under European control, there was little or no foreign capital, and in many cases there was partial or complete government ownership.[44]

Foreign capital has furnished telecommunications and other public utilities for many countries.

The people of the United States and Britain are the principal foreign investors in public utilities. An American telephone com-

[43] On American loans for public works see Cleona Lewis, *America's Stake in International Investments* (1938), pp. 378-86, and on the British attitude toward highway building in Argentina see Ysabel F. Rennie *The Argentine Republic* (1945), pp. 231-34, 241-42.

[44] Based on Oliver James Lissitzyn, *International Air Transport and National Policy* (1942), pp. 300-57; William A. M. Burden, *The Struggle for Airways in Latin America* (1943), pp. 26-67.

pany, for example, has organized and retains control of telephone companies all over the world—but with large participation by investors of other countries. An American power company has subsidiaries in South America, Central America, West Indies, Mexico, India, and China. Other American power companies have investments in Canada. American loan capital has been provided for the electric-power corporations of various countries, among them Austria, Germany, Italy, and Japan.

British and Canadian capital is invested in electric tramways and power plants in a number of Brazilian cities and in Bolivia.[45] British companies also own and operate canals and docks, electric light and power, gas, telephone and telegraph, tramway and bus, and water works companies in many parts of the world. The British investment in foreign public utilities in 1938 was put at 175 million pounds (roughly 875 million dollars in 1938).[46]

Belgian and Luxemburg capital is in control of the big electric power company which serves the city and the province of Buenos Aires and has subsidiaries in Berlin, Germany, and Paris, France—a company in which there is also considerable participation by American capital.[47] Belgian capital also is invested in British-controlled traction, light, and power companies operating in Brazil and in traction companies in Cairo and Alexandria.[48] There is also some Belgian and some French capital in Turkish public utilities.[49]

French capital helped provide port works for a number of Brazilian coastal cities and for the Near East. The French pioneered in the building of the Suez Canal—in which they still have a large interest—and made an unsuccessful beginning on the construction of the Panama Canal. They also built many small public utilities throughout Latin America and may still retain control of many of these early investments.

[45] Department of Overseas Trade, *Bolivia, Review of Commercial Conditions*, December 1944, p. 18.

[46] Kindersley, *The Economic Journal*, December 1939, pp 684-85, 690

[47] *Standard Corporation Records*, C-E, February-March 1947, p. 2303. See also p. 154, footnote 23

[48] A. E Crouchley, *The Investment of Foreign Capital in Egyptian Companies and Public Debt* (Ministry of Finance, Egypt, technical paper No 12, 1936), p. 97.

[49] Department of Overseas Trade, *Turkey, Review of Commercial Conditions*, June 1945, p 14.

CHAPTER VI

OPPORTUNITIES AND INDUCEMENTS OFFERED FOREIGN CAPITAL

A glance at the undeveloped and underdeveloped areas of the world and at the war-torn countries of Europe and Asia may suggest that opportunities for investment abroad are almost without limit. Yet in the period since VJ-day, private investment—except in oil—has been of relatively small importance. The large loans that many countries have obtained in the postwar period have been mainly intergovernmental, a fact that reflects the risks inherent in the unsettled political and economic conditions of the present. But as far as the United States is concerned, intergovernmental lending is a wartime phenomenon that may be presumed to come to an end eventually, leaving to private capital the risks and gains involved in the development of world resources. The present chapter will consider some of the opportunities and inducements the future may offer to persuade private capital again to venture abroad.

I. OPPORTUNITIES FOR DIRECT INVESTMENT

A survey of world resources indicates that openings exist in foreign countries for the employment of venture capital. With political and economic conditions stabilized, some of these undoubtedly will prove attractive to American investors. This is particularly the case of investments that will aid production of commodities wanted in increasing amounts in the United States.

The world's latent and partly developed mineral resources offer investment outlets for foreign capital.

To supplement the dwindling mineral resources of the United States, American companies are making studies of deposits in a number of promising areas: they are testing iron ore deposits in Labrador and Quebec, northern Brazil and Venezuela; developing ilmenite deposits in Brazil (to obtain titanium oxide, a paint pig-

ment used in place of white lead); extending their oil investments in the Middle East and in the Caribbean areas; developing new copper projects in Mexico and South Africa; developing gold and silver concessions in Honduras, and new bauxite deposits in Caribbean countries;[1] and obtaining concessions for the exploration and development of mineral resources in Liberia.

According to published reports, the British government is taking an active interest in the development of the Empire's mineral wealth. It is organizing geological surveys for the colonies, will give financial and technical assistance to miners and prospectors, and will aid in the establishment of processing and refining industries and in the building of roads, water and power facilities, and other public improvements.[2] British companies—with or without government assistance—are extending their search for new mineral resources in foreign as well as colonial areas.

Oil in the Middle East is attracting British, Dutch, and American capital in large amounts, with some French participation, and with the Russian government also seeking concession rights. Development of this important mineral resource is expected to yield large profits to exploiting companies and political and strategic advantages to their governments in time of war.[3] It will increase employment in the area, and royalties on oil produced will provide the governments of the area with funds for building badly needed irrigation works, railways, and other utilities.

It is expected that some oil discoveries will be made farther east in Asia, in addition to the fields already operating in India and the East Indies. Also, there is hope that in South America other countries as well as Peru, Colombia, and Venezuela may eventually yield oil in exportable quantities.

The search for new discoveries will continue to occupy the attention of geologists and to employ funds provided by the big in-

[1] U.S. Bureau of Mines, *Minerals Yearbook, 1945* (1947), devotes pp. 1597-1658 to a review of the minerals situation throughout the world

[2] *World Report,* Feb. 18, 1947, p. 23

[3] Dorothy V. Knibb, "Fountain of Oil in the Middle East," *Foreign Commerce Weekly,* May 13, 1944, pp. 5-9 The British government, as the majority stockholder in Anglo-Iranian oil, is directly involved in the exploitation of oil in Iran and Iraq.

dustrial countries. Mineral resources in many parts of the world that are now inaccessible, for one reason or another, will prove more attractive to foreign capital as present reserves become depleted.

Recent history suggests that important discoveries remain for the future.

New methods of finding concealed mineral deposits have been invented in recent years and new techniques for utilizing leaner ores or complex refractory ores have been developed. These involve the application of mass production methods to the work of mining and employment of improved methods of concentrating and smelting the ores. Developed for the copper industry, these methods are now being adapted to permit economic utilization of other low-grade mineral deposits. Costs have been lowered by the introduction of labor-saving machinery and by the elimination of hazards to health and safety.

Petroleum is the industry that has made the greatest progress in recent years in the technique of exploration. The presence of oil in Bahrein Island was well known long before commercial quantities were located. As early as 1890 the British government had an oil agreement with the Sheik of Bahrein. But British geologists repeatedly reported that oil in paying quantities was not there, and the concession was allowed to lapse. Later Standard of California acquired the concession and in 1930 sent out an operating man and geologists to begin operations. Eight years later the tiny islands in the Persian Gulf ranked fourteenth among world producers of oil.[4]

Development of oil in the neighboring kingdom of Saudi Arabia —whose reserves equal those of the United States—began as late as 1933. An expedition to the country in 1927-32, following removal of the bar against Western visitors, was financed by an American diplomat interested in improving the living conditions of the people. To this end he took in—as gifts and for demonstration purposes—agricultural equipment, pumps, wind-mills, en-

[4] Knibb, *Foreign Commerce Weekly*, May 13, 1944, p. 8.

gines, and the like, and brought out data regarding oil and other mineral resources. Standard of California obtained a concession to explore and develop the oil resources of a large area. Together with the Texas Company it organized what proved to be a highly profitable subsidiary—now the Arabian American Oil Company—to operate the concession. Mining concessions, which were not wanted by American firms, were granted to a London company. Through the operation of these British and American companies, the purpose of the original expedition to the country has been realized. The rents and royalties paid by the companies have enabled the government of Saudi Arabia to finance irrigation and other agricultural projects, roadbuilding, port development, and educational and cultural activities, to the advantage of native populations.[5]

Chile's vast deposits of low-grade copper did not become economically important until large-scale methods of mining and concentrating the ore were introduced following World War I. The possibility of exploiting these deposits was not considered to be economically feasible until the use of the steam shovel in open pit mining and the introduction of the flotation process of concentrating the ores reduced costs. Tremendous outlays of capital were required for developing these low-grade ore bodies—located on the slopes of the Andes at an elevation of 7,500 to 9,000 feet. Construction of a railway to bridge the 80 miles lying between the mines and the seaport of Santiago, and later extension of the road into higher and even more inaccessible regions, was a notable and costly engineering feat. Fortunately for the engineers and the capitalists who sponsored the venture, subsequent history confirmed their judgment of its value. Anticipated profits were also tremendous.

After 55 years of intermittent exploration, the Labrador-Quebec area is assuming importance as a potential source of iron ore for American and Canadian blast furnaces and mills. The first survey of this region was undertaken in 1893. Thirty years later pros-

[5] Karl Saben Twitchell, *Saudi Arabia, with an Account of the Development of its Natural Resources* (1947), pp. 121-77, Ephraim Speiser, *The United States and the Near East* (1947), pp. 125-33.

pectors were hunting for gold in Labrador. In 1929 a syndicate financed a large party to search for iron. In 1936 another company took over the rights of the former syndicate and the search for gold again was pursued. This time, however, it became clear that iron would be the great resource of the region. Two years later a mining and exploration company (operating with Canadian and American capital) signed a concession agreement with the Newfoundland government. Mining experts expect that Labrador iron will rival in tonnage and grade the ore from the old Mesabi range, but 100 million dollars or more will have to be spent—for a railway, mines, mills, plant, and construction of a town—before a ton of ore can be delivered to market. The railway survey has been completed and building of the road is planned.[6]

For the immediate present, capital is required for reconditioning damaged mineral properties.

The war brought chaos and destruction to the mining and oil industries of many parts of the world. Machines and installations used in the production and shipment of ores and oil have been destroyed or dismantled by the owners of the properties, by invading armies, and later in some countries by the Russians. But where political conditions permit, the owners of the properties—foreign and native—are making progress in repairing these damages.

In the tin mines of Indo-China, Burma, the Dutch Indies, Malaya, and Siam, production has been retarded by the run-down condition of machinery and dredges caused by lack of maintenance and repairs and war damage. Also production and shipment of tin and other ores have been slowed down by political disturbances. The petroleum fields and refineries of the southeast Pacific area—controlled by British, Dutch, and American capital—for the most part are being rehabilitated. In some cases the export of oil was resumed by the end of 1946.

In Europe during the war the Nazis overexploited the mines and oil properties without regard for future operations. Since the war

[6] Ewart Young, "Look to Labrador," *Atlantic Guardian* (Montreal) May 1947; *The Iron Age*, Jan. 2, 1947, p. 130, Jan. 1, 1948, p 214.

the reconditioning of the properties has been held back by labor shortages, by political unrest, and in some countries by Russian control. In Western Europe, however, the rebuilding (or building) of refineries by the oil companies is underway, for example in France, Italy, and Holland.

The problem of earning and paying capacity limits investment opportunities in agriculture.

It is sometimes suggested that the mechanization of peasant agriculture everywhere could absorb vast amounts of capital—whether measured in terms of dollars or machines and equipment. This is true of Eastern Europe, the Far East, and most of Latin America where even before World War II the most primitive methods and equipment were used.[7] Throughout Europe, for example, wooden plows were common, and power-driven machinery was used only for threshing. Only the rich peasants had tractors. Wartime destruction has greatly reduced the supply of oxen, horses, and machinery so that recovery—even to prewar levels—will take time.

In the absence of machines, man-power costs are high. In China before the war it cost 26 man days to grow and harvest one acre of wheat, but only 1.2 man days in the United States. For an acre of cotton the cost was 53 man days in China, 14 in the United States. In China and Japan, where rice is set out and harvested by hand, production of one metric ton of rough rice cost approximately 46 man days. The cost was 3 man days in the United States where rice, like other small grains, is planted, cultivated, and harvested with machines.[8]

Such high man-power costs meant, of course, low productivity per worker—although in many cases yield per acre was very high. A comparison of the prewar net productivity of workers in 20 countries is given in the table on page 124.

Comparisons such as those given here do not argue that the problem of agriculture in countries of low productivity per worker could be readily solved by the introduction of power machines.

[7] Doreen Warriner, *Economics of Peasant Farming* (1939), pp. 66, 117-18, 126, 136-37; George Wythe, *Industry in Latin America* (1945).

[8] John Lossing Buck, *China's Farm Economy* (1930), p. 14; Colin Clark, *The Conditions of Economic Progress* (1940), p. 262

NET PRODUCTIVITY PER MAN IN AGRICULTURE, 1934–35[a]
(Production valued at international prices and expressed in dollars of 1925–34 purchasing power in the United States)

Country	Production per Male Worker	Males Employed per 1,000 Acres[b]	Country	Production per Male Worker	Males Employed per 1,000 Acres[b]
New Zealand	$2,444	8	Switzerland	$433	67
Australia	1,524	3	France	415	54
Argentina	1,233	3	Belgium	394	157
Uruguay	1,000	9	Sweden	352	
United States[b]	661	10	Czechoslovakia	287	83
Denmark	642	59	Estonia	268	32
Canada[b]	618	14	Poland	195	83
Holland	579	95	India	127	133
Germany	490	66	Japan	120	351
Great Britain	475	28			

[a] Colin Clark, *The Conditions of Economic Progress*, (1940) pp. 244–46; *The Economics of 1960* (1943), p. 33.
[b] Acreage figures used in the computations include arable and pasture lands except figures for the United States and Canada, which exclude unenclosed pastures

It must be noted that in sections of India, China, and Japan and some Balkan countries, where soils are rich and "farms" are of minute proportions, agriculture now yields a subsistence income for large numbers of peasants. If machines were introduced there, workers would be thrown out of employment and in the absence of other employment would be left without even their present slender income.[9] Consideration of the problem suggests that productivity in agriculture is a far-reaching domestic problem interrelated with other broad economic and policy problems of the country concerned. It involves consideration of alternative employment opportunities, land distribution, rental charges, interest rates, and in most cases the need for increased transportation facilities and irrigation projects to make new land available.

[9] Studies made for certain parts of China have shown that plowing with a tractor costs $4.22 (Chinese currency of 1930) an acre as against $1.62 with buffalo team—a considerable increase in money costs. Buck, *China's Farm Economy*, p. 315; Warriner, *Economics of Peasant Farming*, p. 108 On the task of rehabilitating Western Europe, see Karl Brandt, *The Reconstruction of World Agriculture* (1945), pp. 232-35

The task that foreign private capital would face if it undertook to equip Asia's hundreds of millions of peasants with farm tools—not to mention machines—baffles the imagination. It is an undertaking that the governments of Asia might include as part of long-range industrialization plans—encouraging the development of domestic industries that in turn would produce the tools needed by the peasants.

Capital provided for irrigation and drainage projects would increase agricultural production.

Irrigation and drainage projects would make it possible for some areas to produce a greater variety and volume of crops. Most of Eastern Europe suffers from lack of rainfall and summer drought, but does not have the capital required for irrigation facilities. Eastern Poland has an added problem: while part of its land is too dry, the Pripet Marsh section is too wet for cultivation. In French West Africa, large-scale irrigation would make the production of cotton possible.[10]

In China the control and harnessing of the Yangtze River is a major project for the future, but not one likely to invite the direct investment of foreign capital. By preventing recurring floods it would prevent great crop losses, while development of available water power would add to the industrial resources of the country. American engineers in the employ of the Chinese government are at work on plans for this great construction job.

Beyond present limits of cultivation in China, use could be made of agricultural machines and irrigation equipment for expanding agriculture into arid regions that now will not provide even a bare subsistence for man and beast. The difficulty is that China's purchasing power in foreign countries is limited, while its demand for foreign goods is very great.

Projects of this kind call for tremendous expenditures. For colonial areas the government of the metropolitan power concerned may be expected to supply the leadership and at least part of the capital for developments that promise political or economic ad-

[10] Emil Lengyel, *Dakar: Outpost of Two Hemispheres* (1941), p. 119.

vantages of sufficient importance. For independent countries, the aid of foreign capital may be forthcoming in some cases if it appears likely that the investment will earn a fair rate of return.

Plantation crops may attract additional foreign capital.

In Asia because of the troubled political situation—in India, China, the East Indies, and Indo-China—the extent of the war damage of the great plantations has not yet been fully assessed. So far as the rubber plantations are concerned, the restoration of productive capacity has proceeded more rapidly than was thought possible at the end of the war. Of the investment in coffee and tea plantations and sugar cane estates of the Far East, it is thought that little of value may be left except the land. Yet it is estimated that, given political stability, the rehabilitation of Java's plantation economy, for example, could be effected in a reasonably short time.[11]

The war has encouraged the use of new or little-known oil nuts, fibers, and ingredients for insecticides and medicines. Many of these have been developed as substitutes for materials whose source of supply was for a time in enemy hands. It seems likely, however, that some of them will become established in world trade and that increased production will attract some foreign financing.

Increased production and improved production methods and equipment will call for additional capital for plantation crops already well established in world markets. United Fruit Company's banana plantations furnish examples. During the past decade the company converted 25,000 acres of malarial wasteland in Guatemala and additional holdings in Costa Rica into modern plantations. At considerable cost these have been equipped with homes, schools, and hospitals for its workers, with transportation and communication facilities, and with modern agricultural equipment such as the sprinkler system that supplies "rainfall" for three and a half acres at a time.[12] The expansion of cotton culture in Brazil and Peru

[11] "Rubber and Rubber Products," *Foreign Commerce Weekly*, Nov. 1, 1947, p. 25, Karl Brandt, *The Reconstruction of World Agriculture* (1945), p. 196.

[12] *Time*, Mar. 18, 1946, p. 40.

has attracted additional foreign capital to these countries—invested principally by companies that participate in marketing the crop.

Crops transplanted from one region to another sometimes offer profitable outlets for capital, although this appears to be unlikely with regard to most crops brought to the Americas during Japan's day of power. For example, United Fruit is turning its recently planted acreage of abacá (for manila hemp) over to its laborers, who will grow the fiber as a peasant crop.

New investment in foreign plantations will probably be offset by some reductions. Competition from the synthetic product may discourage rubber growing in the Far East. The history of Ford's unsuccessful ventures in growing Brazilian rubber and in exploiting the fine hard woods of Amazonia may deter some who are hesitating on the brink of some agricultural experiment in the American tropics.

Manufacturing companies in the future as in the past will build foreign branch plants.

American-controlled factories and branch plants operating abroad divide into two broad classes: those whose products are intended for foreign consumption, and those producing for the American market.[13] For the large class of industries producing for the foreign market, the principal advantages sought are lower production costs and the development of good will for their products, both of these contributing toward larger sales. Factors important in reducing costs for one industry may, of course, not operate for others. In general these economies are effected by reducing distances and therefore transportation costs, by getting inside tariff walls, manufacturing inside areas where exchange differentials have cut costs in comparison with American rates, lowering labor costs, and by the utilization of raw materials at their source. Foreign opportunities of this kind may be less numerous and less profitable than in former years, but, it may be expected that opportunities will be found in some countries and in some lines of industry. In fact many small-sized branch factories and assembling plants have been established abroad since VJ-day.

[13] See p. 112 above.

Transportation, communication, and other public utilities could utilize large amounts of foreign capital.

As Chapter V has shown, some countries would have a decidedly short supply of all kinds of public utilities today even if their transportation and communication facilities, their power and light plants and transmission lines, and all of their other utilities were in as good a state of efficiency and repair as existed before the war. But the war brought destruction, heavy usage, and a minimum of maintenance and repair in many countries. The task of repairing and rebuilding the facilities thus damaged, destroyed, or worn out will probably be undertaken by the owners of the properties. And since in many cases they are foreign-owned, this will involve a considerable expenditure of foreign funds.

Undoubtedly foreign capital for new concessions and new building will be in demand and will be supplied for some areas. But the nationalistic attitude that some governments and people have exhibited in recent years toward foreign enterprises—particularly toward foreign control of public utilities—will prove an obstacle to the expansion of these facilities by foreign private enterprise. But many countries that discourage direct investments in the development of these service industries plan to extend and modernize such facilities with the aid of foreign funds obtained through government (or government-guaranteed) loans floated in foreign markets.

II. LOANS FOR INDUSTRIALIZATION PROJECTS

Industrial expansion is the expressed ambition of nations the world over. A higher standard of living is the people's goal everywhere. New industries are wanted in the overcrowded countries of the Orient and of eastern Europe to relieve the pressure of population on primary industries (thereby facilitating reforms in agriculture) and to provide for better utilization of domestic raw materials. Among the simpler industries included in the programs for many countries are plants for the processing, preserving, and refrigeration of foods, cotton textiles, vegetable oil mills, and the simpler metal-working industries. The more ambitious programs

include the heavy industries and the whole range of modern public utilities and health and educational facilities.

China. A truly gigantic program for China was outlined by Dr. Sun Yat-sen, following World War I (published in English in 1921). It included: (1) development of communications system, (2) development of commercial harbors, (3) building modern cities with public utilities, (4) water-power development, (5) building iron and steel and cement works, (6) mineral development, (7) agricultural development, (8) building irrigation works in Mongolia and Sinkiang, (9) reforestation of central and north China, and (10) colonization in Manchuria, Mongolia, Sinkiang, Kokonor, and Tibet.[14]

This program covered only what Dr. Sun called "national undertakings . . . state owned and . . . managed for the benefit of the whole nation." It was to be financed by foreign loan capital—part of the proceeds of such loans to be used by the Chinese government for employing foreign experts. Education is not mentioned as one of the ten major points of the program, but technical training for the Chinese was to be made an obligation of the foreign experts who would have "to undertake the training of Chinese assistants to take their places in the future."

The plan also envisaged the participation of foreign private enterprise in the industrial development of China. With this in view Dr. Sun proposed that "the hitherto suicidal internal taxes must be abolished, the cumbersome currency must be reformed, the various kinds of official obstacles must be removed, and transportation facilities must be provided."[15]

Dr. Sun's ambitious program met with little response from foreign capitalists. As Mr. W. Y. Lin of the Bank of China (Chungking) explained: "Neither the world financial developments nor the domestic political situation appeared to afford any reasonable basis for the fulfillment of such exaggerated hopes."[16]

[14] Sun Yat-sen, *The International Development of China*, 2d ed (1929), pp. 6-8.

[15] The same, p. 11.

[16] *China and Foreign Capital* (1945), p. 13.

But the very failure of the plan has been a constructive force. Recalling China's past disappointments, Mr. Lin has advised those now responsible for the country's future that their plans must be "sufficiently attainable to bring them into the realm of practical politics." He also has pointed out that foreign borrowing involves responsibilities:

> Fundamentally, when a country borrows it renders itself liable thereby to meet in future years the service charges on the sums borrowed, and the more it borrows, the more do these charges pile up against it. It is, therefore, a cardinal principle of sound international finance that a country should only borrow from abroad for capital development of a type likely to improve its balance of international payments in the future.[17]

Estimates emanating from official sources still put China's foreign capital requirements at a large figure. Ten billion dollars would be welcomed, according to a statement attributed to Foreign Minister T. V. Soong.[18] But today most Chinese officials recognize that programs for industrializing the country should make provision for servicing the foreign capital used, a problem not squarely faced by Dr. Sun. Thus a member of the Executive Yuan recently said: ". . . we realize only too well that we have to depend for a long time, and to a large degree, on foreign capital, especially American capital. . . . This is a business affair; it is not relief; it is not charity. Sooner or later China must be in a position to pay back these supplies."[19]

India. A number of development programs have been drawn up for India, of which the "Bombay Plan," outlined by Bombay industrialists, has probably attracted most attention. This plan makes no mention of direct investments by foreigners, but maps a course for the development of India by Indians. It proposes to treble the country's national income by a capital investment of 7.5 billion pounds sterling spread over 15 years. It points out that India would be "dependent almost entirely on foreign countries for the machinery and technical skill necessary for the establishment of both

[17] The same, p. 15.

[18] *Contemporary China*, Vol. 3, Feb 7, 1944. In 1938 Chinese long-term obligations to foreigners amounted to about 2.6 billion dollars.

[19] The same, Mar 6, 1944. From a speech by Dr. Tingfu F. Tsiang, Director of the Political Affairs Department of the Executive Yuan.

basic and other industries," and that India will have to have foreign exchange (or gold) to a total of 1,950 million pounds sterling to meet these payments. India itself would provide about 1,425 millions from its own sources (hoarded wealth, sterling balances, arising from short-term loans to Britain, and the trade balance). Only 525 million pounds sterling would be borrowed abroad—an average of 35 million pounds (or about 140 million dollars) a year over the fifteen-year period.[20]

The Bombay Plan passes lightly over the population problem, which is of basic importance in any consideration of India's future. The arithmetic calculations for the plan make allowance for population growth at present rates, but no allowance is made for the fact that any improvement in the food supply is always quickly met by an increase in the number of consumers. As an outstanding Indian economist has pointed out, industrialization would contribute toward better farm and agricultural marketing and therefore to the expansion of the food supply. But, as he observed: ". . . mere increase of production cannot now solve the problems at present inherent in the situation. . . . Unless some check is placed upon population growth, any other remedy tends to be only temporary. . . ."[21]

Chile. The government of Chile has mapped out an ambitious program of assistance to agriculture, industry, and mining. It includes the development of new industries and assistance to those already established—development of hydroelectric power resources, of heavy chemical industry, exploration for petroleum resources, improvement of highways and railroads, erection of refrigeration plants, development of mineral production, establishment of an iron and steel industry, provision of credit facilities for the small farmer and businessman, and numerous other projects. For the

[20] *A Plan of Economic Development for India* (published as a Penguin Special, 1945), particularly pp. 51-57. Of the eight authors of the plan, four were members of the great Tata organization and three were directors of the Reserve Bank of India. The proposed new borrowing of some 2.1 billion dollars may be compared with India's long-term external obligations in 1938 of roughly 2.8 billion dollars, a large part of which has been liquidated during the war. This plan was for India before partition.

[21] Radhakamal Mukerjee, *Food Planning for Four Hundred Millions* (1938), pp. 207-09, 216-17. Mukerjee points out that China faces a similar problem.

execution of the plan the country depends primarily on the Chilean Development Corporation (Corporación de Fomento), which was created in 1939 to aid recovery from earthquake damage. This corporation has received substantial assistance from the Export-Import Bank, but it has also been supplied with Chilean funds. As of October 1946 the Export-Import Bank had approved loans to the Corporation totaling 86 million dollars; private interests in the United States had granted loans of 11 million dollars; and Chilean taxes plus receipts from the sale of stock in companies controlled by the Corporation and interest and dividend receipts from such companies had supplied the equivalent of 111 million dollars.[22]

Brazil. In 1944 a fifteen-year plan for the industrialization of Brazil was submitted to the Brazilian National Council of Industrial and Commercial Policy and was endorsed by that body and by the Economic Planning Commission.[23] Brazil already has its Volta Redonda steel plant, partly financed by the Export-Import Bank, and various related industries, but that is only a beginning. The present plan calls for "balanced consideration" of all problems relating to industry, agriculture, and commerce, with large expenditures for the development of hydroelectric power and other sources of energy, development of transportation facilities, and mechanization of agriculture.

For the initial phases of the work Brazil planned to use half of the 580 million dollars of foreign exchange it held. But it was expected that the United States would furnish most of the remaining capital required. In place of the usual provision for interest payments, redemption and amortization, a novel proposal was offered. "At the start," the borrower, Brazil, would substitute "participation in the industrial enterprise created with the funds, and ultimately it [payment] could be met from the balances accruing from new exports. . . ." For additional labor, the country expected to depend on immigration and to this end made plans for the colonization of some of its vast hinterland.[24]

[22] United Nations, *Economic Development in Selected Countries*, October 1947, pp. 99-101, 104-16, Herman Finer, *The Chilean Development Corporation*, (International Labour Office, 1947).

[23] *The Inter-American*, February 1945, p 44, United Nations, *Economic Development in Selected Countries*, p 79.

[24] *The Inter-American*, April 1946, p. 44.

As the plan has developed, however, the foreign capital supplied Brazil has been furnished by Export-Import Bank loans: 45 million dollars for the Volta Redonda steel industry; 26.5 million dollars for the Rio Doce Valley Company (developing the iron ore deposits of Itabira and operating the railway used in transporting the ore); 7.5 million dollars for the National Alkali Company; and 1.2 million dollars for the National Motor Engine Factory (and an additional 6 millions of lend-lease funds for the same project).[25] Export-Import Bank loans were also made to Brazilian railways, the Bank of Brazil, and other Brazilian companies, bringing the total of loans outstanding on June 30, 1947 to 82.6 million dollars and loans approved but not yet disbursed to 47.6 millions.[26]

Peru has its domestically financed Duck Canyon industrialization plan. This starts with the development of cheap hydroelectric power and includes irrigation works, port works, a steel plant, factories producing various mineral products, and transcontinental and branch highways.[27] The Duck Canyon hydroelectric development, an engineering project of first magnitude, is the cornerstone on which other activities are to be based.[28]

Liberia. A plan to develop the natural resources of Liberia and improve its public education, health, and welfare was announced in September 1947 by the Secretary of State of that republic and the chairman of the board of Stettinius Associates, an American firm. Two organizations are to be set up for this purpose: The Liberia Company and the Liberian Educational Foundation. The Liberia Company is expected to have an initial capital of 1 million dollars, divided into 1 million shares, of which 250,000 shares will be given free to the Liberian government and 100,000 shares to the Liberian Educational Foundation. The Liberia Company is to have exploratory rights in connection with resources such as iron ore, lumber, cocoa, and possibly certain other minerals and plantation products. The exploitation of resources will be turned over to subsidiaries, working with Liberian and foreign capital.[29]

[25] United Nations, *Economic Development in Selected Countries*, pp. 84-92.

[26] Export-Import Bank, *Fourth Semi-annual Report*, January-June 1947, p 19.

[27] Lawrence and Sylvia Martin, "Andean TVA," *The Inter-American*, October 1944, p. 22.

[28] United Nations, *Economic Development in Selected Countries*, pp. 121-26.

[29] The same, p. 286.

The summary statements given above include some of the outstanding development plans made by the government. The purpose was to give a number of interesting examples, not to furnish an all-inclusive list of plans and programs. For complete coverage it would be necessary to add other programs adopted by some of the countries considered here, and also to add the programs of some countries not included above.

III. INDUCEMENTS OFFERED BY FOREIGN GOVERNMENTS

Governments sometimes adopt policies designed to attract foreign direct investments. Laws framed with this in view include compulsory measures embodied in the patent laws of some countries with a view to bringing in new industries, and threats of punitive action against existing enterprises to force an expansion of their operations. More effective are tax exemptions, grants of subsidies and loans, and government guarantees of interest and capital invested in specified enterprises.

Patent laws are credited with stimulating some international migration of industry.

The purpose of early patent laws in England was clearly to encourage the bringing in of industries from other countries—the word "invent" being given its Latin meaning of "bring in." Following this lead, the laws of many countries today contain a "working" clause and licensing provisions, requiring a patent holder to manufacture the article patented, or license someone else to manufacture it, in the country granting the patent. In other words, the purpose of these sections of the law is still to "bring in" industries from abroad.[30]

The patent laws of Canada, as amended in 1903, made a patent null and void at the end of two years "unless the patentee shall commence and continuously carry on in Canada the construction or manufacture of the invention patented, in such a manner that any

[30] *Pooling of Patents,* Hearings before the House Committee on Patents, 74 Cong., Pt. 1, pp. 620-22, 651. The patent law of the United States does not contain such provisions

person desiring to use it may obtain it at a reasonable price . . . in Canada," and at the end of twelve months if the "patentee imports into Canada the invention for which the patent is granted." The establishment of 130 branch plants in Ontario and Quebec was attributed by one writer directly to this law.[31] The British patent act of 1907 contained a somewhat similar though less drastic "working" clause,[32] which by 1911 was credited with having brought into the United Kingdom many new industries, largely German and American.

Tax exemption and other forms of financial aid are time-honored attractions.

A number of Canadian provinces for years have followed the practice of providing industrial newcomers with free sites and money bonuses, loans and tax exemption privileges, and sometimes free water and electric lights. The Goodyear Tire & Rubber Co. of Canada, Ltd. mentioned in its 1921 report that its plant at Bowmanville was tax exempt except for school tax until 1925 and the one at New Toronto until 1936. Empire preference tariffs, permitting the free entry of Canadian goods into other British Empire countries, have encouraged the establishment of branch plants and other foreign-financed industries in the Dominion.

During the railway building period in Argentina every effort was made to encourage British capital to build and equip the country's railways. It is reported that one British-controlled road extending south from Buenos Aires was given its right of way free of charge, was also given tax exemption, and was guaranteed a 7 per cent return on its investment for a period of years.[33]

Exemptions from taxes of one kind or another are provided for in the new legislation of some Latin American countries. In Haiti recently the builders of a textile mill were granted a 15-year tariff immunity on imports and exports related to the operation of the

[31] Edward Porritt, *Sixty Years of Protection in Canada 1846-1907* (1908), p. 410.

[32] Abandoned in the 1919 revision of the law.

[33] Arthur A. Kron, "Customers and Competitors in Latin America," *The Commercial and Financial Chronicle*, July 4, 1946, p. 108.

mill and also excise tax concessions.[34] Brazil grants exemption from customs duties on imported plant, raw materials, and fuel used in factories operating in the country and in the past has given other forms of aid to attract foreign capital.[35] In Venezuela the law exempts all mining enterprises and railways from payment of import duties on machinery and equipment.[36]

Mexico adopted a law in 1941 that grants new manufacturing industries a five-year exemption from import duties on necessary machines and raw materials; also exemption from income, excess profits, stamp, and federal industrial and export taxes.[37] However, executive decrees issued in 1944 and 1947 practically nullified the tax exemption privileges provided by this law.

During the war there was a great inflow of foreign capital into Mexico, partly refugee capital, partly foreign funds attracted by the promise of war profits and by the tax exemption privileges of the new law. Government spokesmen noted that this would create problems for the future. They pointed out that it was shortsighted to encourage new foreign investment without making certain that the industries concerned would remain in Mexico and that the profits earned would be reinvested there. To meet this situation, a decree promulgated in June 1944 made all investments or purchases of property by foreigners subject to a special permit. Such permits are granted only if the foreigners involved are permanent residents of Mexico, or if the companies affected have a majority of Mexican shareholders.[38]

A later presidential decree (June 23, 1947), requires foreigners to obtain a special permit before they can invest any capital in Mexico. The law also provides that foreigners can hold not more than 49 per cent of the stock of any enterprise operating in Mexico

[34] *Foreign Commerce Weekly*, Feb. 2, 1946, p. 23.
[35] Department of Overseas Trade, *Brazil, Review of Commercial Conditions*, December 1944, p. 23; George Wythe, *Industry in Latin America* (1945), p 153. Restrictions on foreign capital in Brazil are also numerous, see p. 160 below.
[36] U. S. Department of Commerce, Inquiry Reference Service, *Establishing a Business in Venezuela*, November 1944, p. 19. Regarding import duties on machinery for the oil industry see p. 137, n 40
[37] *The Inter-American*, May 1945, p. 42.
[38] Dept. of Overseas Trade, *Mexico, Review of Commercial Conditions*, March 1945, p. 24.

unless the government specifically gives the foreigner a right to hold a majority, or even 100 per cent of the stock. It appears that the Mexican government frequently does grant exceptions to the law in order to bring in new industry wanted for the country. It is also reported that in practice some foreign concerns evade the law by issuing bearers shares that, according to the companies' books, have been issued to Mexicans. But the Mexican "bearer"—a dummy holder—may and does transfer his shares to the foreign owner of the company. It is reported that the Mexican government winks at this practice because it wants foreign capital, but does not revise the law because it is aware of the nationalistic prejudices of its people. This raises questions concerning the position of such companies in case a "reform" government should question the legality of the foreign ownership.[39]

Coercive measures are responsible for some foreign investment.

In some large petroleum-producing countries there is increasing insistence that foreign oil companies build refineries within their borders. Venezuela is the principal example. Under the Law of Hydrocarbons of 1943, every new oil concession title granted by the government includes a clause obligating the concessionaire to refine in Venezuela an amount of crude equal to 10 per cent of the oil produced. President Medina, in a statement to Congress in 1944, said: "The policy of the Government is definitely to have refining within our own country; in all new concessions there will be an obligation to refine in Venezuela part of the petroleum exploited; . . . in no case should the petroleum of the new concessions be refined outside of Venezuela to supply other markets. . . ."[40]

[39] *U.S News—World Report,* Feb. 13, 1948, p 23; *New York Times,* June 24, 1947; Frank C. Hanighen, "Life Can Be Sweet In Mexico," *Nation's Business,* February 1948, pp. 57-58.

[40] *American Petroleum Interests in Foreign Countries,* Hearings before a Special Senate Committee Investigating Petroleum Resources, 79 Cong. 1 sess., p. 394. The new law abolished the exemption from import taxes on oil industry equipment, but gives the Federal Executive authority to grant such exemptions. Department of Commerce, Inquiry Reference Service, *Establishing a Business in Venezuela,* November 1944, p. 22.

Some countries with little or no petroleum production have imposed taxes on imports of petroleum products in order to compel the erection of refineries within their borders. In France when a tariff on imports of oil products (imposed during the early 1920's) failed to induce the building of foreign refineries, the government (in 1928) enacted a licensing system making all imports subject in advance to government approval. It granted a twenty-year general license to crude oil importers as compared with a three-year general license to oil product importers. American companies had been marketing petroleum products in France since the turn of the century, but none of them had entered the refining field. Confronted with the new law three large American companies decided to construct refineries.[41]

In Italy a tariff on imported petroleum products was imposed soon after the establishment of the Fascist state, and in 1934 the government, following the example of France, enacted a twenty-year licensing system for crude and a three-year for finished products. Faced with this quasi-mandatory law, an American company that was the leading marketer of American high-grade lubricants decided to construct a complete and modern refinery with a catalytic cracking unit and a solvent lubricating oil treating plant.[42]

In Canada, during the second decade of the present century, the Dominion and provincial governments stimulated the erection of paper and pulp mills by prohibiting the export of pulp wood from the Crown lands.[43] The heavy export tax levied on British Empire tin ores exported to any except Empire smelters represents an effort to maintain an established industry rather than an invitation to new industries.[44]

[41] *American Petroleum Interests in Foreign Countries*, Hearings, pp. 391-92.

[42] The same, p. 392.

[43] Herbert Marshall, Frank A. Southard, Jr., and Kenneth W. Taylor, *Canadian-American Industry* (1936), pp. 36-37.

[44] Cleona Lewis, *America's Stake in International Investments* (1938), pp. 253-54.

Some countries will now guarantee new foreign capital the right to transfer earnings.

During the late 1920's the transfer of funds to New York from branch plants operating in a number of foreign countries was almost completely blocked by restrictions on exchange transactions. Consequently, earnings that accumulated abroad were invested in the properties and securities of countries where they were lodged.

Germany, the leader in blocking the export of earnings on foreign capital, used its control over foreign exchange as a tool for forcing the export to Germany of additional amounts of foreign funds. American firms with branch plants in Germany were in the main encouraged to enlarge their plants and install new equipment. Oil companies were encouraged to use their earnings for building tankers or other ships. In some cases, however, the companies were not permitted to transfer earnings nor to increase their investments in Germany unless 10 per cent or more of the costs and expenses of their new plants or ships were paid for in dollars—that is, in new dollar exchange brought into Germany.[45]

This enforced plowing back of earnings raised questions concerning the good faith of exchange-control countries and created considerable ill will against them. American and other foreign companies refused to risk further commitments in countries where the future held no promise of real earnings. To meet this situation, two Latin American countries—Chile and Bolivia—have promised to guarantee the unhindered transfer of earnings and amortization on new foreign capital investments. All types of investments are included: in agriculture, manufacturing, public utilities, commerce, banking, mining, and the purchase of international bonds and mortgage loans.[46]

At times nonindustrial nations have welcomed foreign exploitation of their natural resources. Until relatively recent times, in

[45] *Patents*, Hearings before the Senate Committee on Patents, 77 Cong. 2 sess., (1942), Pt. 3, p. 1352.
[46] *The Inter-American*, June 1945, p. 44; December 1945, p. 37.

fact, many of them watched such development with complacency. It provides increased budgetary revenues, increased foreign trade, and increased employment for native workers. During the past decade and a half, however, this attitude gradually has given place to concern over the future of wasting assets; there has been opposition also to the large share of returns accruing to foreign investors.

In Chapter VII attention is given to the policies by which many governments hinder the inflow of foreign capital. A comparison of these obstructive policies with those intended to attract foreign capital (as described above) indicates that the obstructions presented are now more potent than the attractions offered.

CHAPTER VII

FOREIGN POLICIES HINDERING FUTURE INVESTMENT

Although wishing to benefit from an inflow of foreign loan and venture capital, many countries are apprehensive, even hostile, in their attitude toward the foreign investor. This may be shown in nothing more serious than a canny caution in all dealings with foreigners. Or it may be reflected in a failure to honor existing contracts and in legislation that clearly discriminates against existing and future investments from outside sources. The purpose of the present chapter is to consider some policies that may deter the American investor from risking his accumulated savings in loans or productive enterprises abroad.[1]

Continued failure to honor outstanding foreign debts impairs the credit standing of many countries.

The depression of the 1930's was marked by a great wave of defaults on foreign bonds held in the United States and other lending countries. However, such defaults were not an entirely new phenomenon in American financial history. In fact there had been a number of occasions during the preceding century when one or more states of the union and some local governments were in default on debts owed abroad—unable or unwilling to meet payments on their bonds held by European investors.[2] There had also been earlier occasions when foreigners had defaulted on bonds held by American investors.

The Mexican Revolution of 1911 and subsequent political disorders brought about suspension of payments on Mexico's obligations, practically all of the Mexican bonds held in the United States

[1] Since it has not been possible to keep abreast of changes currently made in the laws and regulations of various countries, some of the statements made in this chapter may be out of date before they appear in print.

[2] Cleona Lewis, *America's Stake in International Investments* (1938), pp. 24-26, 57-64.

being in default by the end of 1914. The Russian Revolution resulted in repudiation of the relatively small total of Russian securities held in the United States. Revolution in China had brought all but one of that country's American-owned obligations into default by 1922, and a few defaults elsewhere were also reported in the 1920's. But the big losses began and grew with the depression of the 1930's.

At the close of 1938 approximately 2.5 billion dollars of foreign dollar bonds were in default on interest account—representing almost 40 per cent of the 6.3 billion total of foreign dollar bonds then outstanding.[3] During ensuing years interest payments were resumed on some issues—usually after new contracts had been negotiated calling for reduced interest payments. Some issues were paid off in whole or in part. The war years added four countries to the list of those in default: namely, Belgium, Estonia, Italy, and Japan. At the end of 1946 foreign dollar bonds still in default amounted to 2.1 billion dollars, while the total outstanding had been pared down to 4.5 billions.

In 1938 Latin American issues accounted for a little more than half of the total in default. By 1946 when payment was again being made by various Latin American borrowers, European issues made up a little more than half of the defaults. The table on page 143 shows, by countries, the aggregate amount of foreign dollar bonds outstanding at the end of 1946 and the amount in default as to interest. The figures given in the table include bonds in foreign hands as well as those held in the United States.

Over the years many bonds have been repurchased by the governments and people of debtor countries. In 1939 the Foreign Bondholders Protective Council reported that 82 per cent of the French dollar bonds outstanding had been stamped to show French ownership. Fifty-five per cent of the Italian dollar bonds were held in Italy.

Such repatriations are above reproach where loans have been regularly serviced, even though foreign debtors go into the market

[3] Institute of International Finance of New York University, *Bulletin 110*, May 13, 1940, pp. 14-15.

STATUS OF FOREIGN DOLLAR BONDS, DECEMBER 31, 1946[a]
(Amounts are in millions)

Country	Bonds Outstanding	In Default as to Interest	Country	Bonds Outstanding	In Default as to Interest
EUROPE			LATIN AMERICA		
Austria*	$ 36.7	$ 36.7	Argentina	$ 50.0	$ 0.8
Belgium	28.2	—	Bolivia*	59.4	59.4
Bulgaria*	16.6	16.6	Brazil	204.1	48.3
Czechoslovakia	3.5	2.8	Chile	155.1	138.7
Danzig	3.4	3.4	Colombia	149.1	107.2
Denmark	114.3	—	Costa Rica*	8.1	8.1
Eire	0.6	—	Cuba	91.8	9.2
Estonia	3.3	3.3	Dominican Republic	10.9	—
Finland	8.6	—	El Salvador	9.2	3.4
France	11.5	—	Haiti	6.1	—
Germany	665.1	665.1	Mexico	273.6	238.6
Greece*	26.9	26.9	Panama	15.6	1.0
Hungary	51.8	51.8	Peru*	85.7	85.7
Italy	150.6	150.6	Uruguay	48.5	1.6
Norway	79.3	—	Total	$1,167.2	$ 702.0
Poland	39.7	39.7			
Romania*	10.9	10.9	FAR EAST		
Russia*	75.0	75.0	Australia	$ 225.7	$ —
Yugoslavia	65.9	65.9	China	6.5	5.5
Total	$1,391.9	$1,148.7	Japan	283.3	283.3
CANADA	$1,432.4	$ 5.5	Total	$ 515.5	$ 288.8
			GRAND TOTAL	$4,507.0	$2,145.0

* Countries in complete default on their dollar bonds in 1946 and also in 1938.

[a] Institute of International Finance of New York University, *Bulletin 150*, June 30, 1947, pp. 32–33. Small additional amounts are in default on sinking funds alone. Many of the countries included in the table also had debts payable in sterling, francs, or in other currencies.

to buy back loans they themselves had issued. This applies to French, Italian, Canadian, and Dutch East Indian repatriations—for very few Canadian issues have failed to meet payments, and the dollar loans repatriated by France, Italy, and the Dutch East Indies had been serviced strictly according to contract.

Repurchases by defaulting borrowers are another matter, and in some cases these have been large. A member of the Foreign Bondholders Protective Council wrote as follows regarding transactions of this kind:

> . . . while governments allege they are unable to find either funds or dollar exchange to pay the interest and sinking fund on their bonds, nevertheless, such governments (many, and indeed most of them) have been able to find both funds and dollar exchange to buy up in our markets their own bonds at the very low prices at which the bonds are selling due to their own wilful default. . . .
>
> . . . some municipal defaulters have bought up while in continuous default, as much as 83.5 per cent of their indebtedness outstanding at the time of default; one country with an outstanding indebtedness at the time of default of over 850 millions, has repatriated, at default prices, approximately 1/3 of the debt. Thirteen countries in default (on which fairly accurate data have been obtained) had at the time of default approximately $1,815,347,000 of dollar debt outstanding. These countries have in some 7 years repatriated approximately 25 per cent of this debt, though all the time alleging they had not available funds or exchange to service their bonds.[4]

Acts of this kind furnish clear evidence of bad faith and are so regarded by American bondholders.

Confidence in foreign securities has been further impaired by the disregard some borrowers have shown for the pledges given in their loan contracts. Government borrowers in all cases pledged their "good faith and credit" to the prompt fulfillment of the provisions of their loan contracts—and yet defaults occurred. In addition, some governments and borrowing corporations pledged certain types of income or properties as security for their loans. Later, they diverted these pledged resources to other uses. One defaulting government in fact was stopped in the act of issuing a domestic loan backed by revenue resources already pledged as security for an issue sold in the United States.[5]

Reference to the table on page 143 shows that at the close of 1946 there were 37 countries with dollar bonds outstanding, and only 9 of these were meeting interest charges on the total amount of their debts. In Canada, however, interest was being paid on all but a

[4] J. Reuben Clark, Jr., Chairman, Executive Committee, quoted in Foreign Bondholders Protective Council, Inc., *Annual Report 1939* (1940), pp. 9-10.

[5] Foreign Bondholders Protective Council, Inc., *Annual Report 1935* (1936), p. 27. Most, if not all, of the dollar bonds of foreign corporations carried a government guarantee, and went into default along with the bonds of the guaranteeing governments.

fraction of 1 per cent of the total, and in Cuba, Panama, Uruguay, and Argentina, interest was met on well over 90 per cent of the respective debt totals. Default on interest was complete in 16 of the 28 defaulting countries—including 12 in Europe, 1 (Japan) in the Far East, and 3 in Latin America.

Some improvement in the situation is expected because it appears that countries with bad credit standing in the United States will have difficulty in borrowing from the World Bank or in the American money market. Belgium in 1947 cleared its otherwise untarnished debt record by resuming sinking fund payments on City of Antwerp bonds. Colombia is taking steps toward refunding some 73 million dollars of departmental and city bonds. Mexico is planning to make payment to American holders of Mexican railway bonds that have been in default for 32 years. Chile has undertaken to increase the partial payments it is making on defaulted bonds. Peru has authorized resumption of payments on 85 million dollars of its defaulted bonds, but the proposed terms were not acceptable to the protective committees of the bondholders.[6]

No resumption of payments by some of the powers recently engaged in World War II can be expected in the foreseeable future. This applies particularly to the Axis powers where the reparation debt fixed by the peace treaties may absorb all of their paying capacity.

The intergovernmental debts left over from World War I for a time constituted another obstacle that would have prevented the loan of private capital to the defaulting governments if such loans had been under consideration. This is because the Johnson Act as originally passed prohibited the sale in the American private capital market of "bonds, securities, or other obligations" of governments in default of their debts to the United States government.[7] The act was revised July 31, 1945 to exempt foreign governments having

[6] *World Report*, May 20, 1947, p. 14.

[7] The act (approved Apr. 13, 1934) expressly permits loans to the defaulting governments if made by "a public corporation created by or pursuant to special authorization of Congress, or a corporation in which the government of the United States has or exercises a controlling interest . . ." 48 Stat. 574. As revised July 31, 1945, it permits loans to members of the Bretton Woods organizations. 59 Stat. 516.

membership in both the International Monetary Fund and the International Bank for Reconstruction and Development. Of the 17 countries affected by the Johnson Act at the outbreak of World War II, 9 are now members of the Bretton Woods institutions; the other 8 include Austria, Russia, 3 countries that have been absorbed by Russia (Estonia, Latvia, Lithuania), and 2 others that are under Soviet control (Hungary and Rumania).

Currency instability has operated to the disadvantage of foreign investors.

During World War I and the early 1920's the currencies of many countries depreciated, some of them catastrophically. Bonds issued in such currencies involved substantial losses for their holders, both foreign and domestic. Bonds written in German marks, for example, became completely worthless. A loan of 4 million marks (1 million dollars) to the city of Cologne, Germany, in 1900 was called for payment in 1923, when the mark had declined to such a level that thirty cents was sufficient to cover the entire 4 million mark debt.[8] Meantime the French franc and bonds written in that currency declined to less than one third their prewar value; the Italian lira to less than one fourth. Efforts at currency stablization during the middle and late 1920's appeared to meet with considerable success. But during the depression, practically all of the world's currencies became unsettled.

The international bankers handling some loans had prepared for such a contingency by inserting in loan contracts a provision intended to safeguard the bondholders against currency depreciation. This provision might be one of two general types. (1) It might give the bondholders a choice regarding the currency in which he would cash his coupons or take payment of his bonds. Thus a certain Canadian loan issued in France provided that payment might be collected either in French or Swiss francs. (2) It might be in the form of a "gold clause," requiring that payments be made in terms of the gold value of the debt.

In the crisis of the depression these safeguards frequently failed to protect the creditor. This was especially true of the gold clause

[8] *Kimber's Record of Government Debts, 1923*, p. 616.

provision. In the main the bondholder's rights with regard to gold-clause loans has depended on action taken by the government and courts of his own country, and considerable variety is shown in this matter.

The United Kingdom, the leading creditor country of the 1930's, upheld the gold clause and also devalued its currency. Italy, Norway, and Finland took similar action. The United States, by a Joint Resolution of Congress (June 5, 1933) abolished the gold clause in existing contracts, outlawed its use in the future, and devalued the currency.[9] This action was generally accepted as applying to all foreign dollar bonds payable in the United States —though not to non-American bondholders claiming payment from non-American debtors.[10] Egypt, Denmark, and Canada followed the example of the United States. Other countries—France, Netherlands, Belgium, Luxemburg, Sweden, and Danzig —most of them important members of the creditor group, devalued their currencies but continued to honor the gold clause in international contracts. Finally, three debtor countries—Germany, Austria, and Poland—whose bitter experience with depreciation in the 1920's was well remembered, undertook to maintain the value of their currencies, and left the interpretation of the gold clause to the legislation of the countries in whose currencies their debts were expressed.[11]

The net result was that the gold clause gave uncertain and uneven protection to the bondholder. Holders of multiple-currency bonds fared better, but sometimes faced adverse decisions in cases brought before the courts. A bond not containing either of these safeguards declined in value with the depreciation of the currency of the bond. Such losses have been especially heavy for French investors, for their large holdings of foreign bonds included a great many that were payable in French francs, a currency that has lost

[9] The gold clause was seldom used in sterling loans, but was frequently used in loans floated in the United States

[10] Dr. Arpad Plesch, *The Gold Clause* (1936), p. vii. The status of the gold clause in bonds issued by American companies and payable in foreign currencies is determined by the laws of the country in whose currency the bond is written. Dr. Martin Domke, *International Loans and the Conflict of Laws*, Grotius Society pamphlet (1937), p. 11.

[11] The same, pp. 4, 5, 7.

about 96 per cent of its value since the beginning of World War I.[12] Losses on this account are in addition to those resulting from the defaults and repudiations of foreign debtors, considered on pages 141-45 above.

Some foreign investors have been adversely affected by the operation of currency controls.

During the 1930's responsible officials of governments throughout the world tried desperately to protect the weak currencies of their respective countries, and today this problem still is of paramount importance in many parts of the world. The task involved for any one country is to maintain a balance between the foreign exchange (and gold) it has available for meeting foreign payments and the amounts it must pay out for necessary imports of commodities and services. To this end, governments developed complicated systems of exchange controls and greatly increased the number and kind of barriers that obstruct the free flow of international trade. These intensified the difficulties and in many cases increased the losses sustained by foreign investors.

In the early 1930's foreign exchange controls usually began with a moratorium on foreign debts and usually involved negotiations with foreign short-term creditors concerning the terms on which outstanding claims would be liquidated. In many countries of Europe and some in Latin America, such agreements called for the setting up of "blocked" accounts into which funds were paid (in domestic currencies) to the credit of specified foreigners, and from which installment payments were "transferred" to these creditors later on. Controls with regard to the payment of existing foreign debts were supplemented by restrictions on all exchange transactions, including both incoming and outgoing foreign bills.

[12] For a time during the interwar period an effort was made in France to collect from foreigners in terms of gold, on the assumption that the gold clause provision was intended to apply to franc loans even though it was not stated. At the same time French-franc debts to foreigners were paid in depreciated francs. In 1937, however, it was established that the gold clause provision does not apply to contracts written in francs unless it is expressly stated in the loan contract. *The Statist,* Mar. 23, 1929, p. 497; Domke, *International Loans,* p. 2.

Wherever controls have been imposed on incoming exchange—from commodity exports, tourist trade, the inflow of foreign capital, and from all other sources—they have always required that part or all of the incoming bills must be sold at a price fixed by the government agency administering the controls, usually the central bank. This price may be the same for all incoming exchange, as is the case in Colombia,[13] or it may be at rates that vary for different types of transactions or kinds of commodity exports. Controls of the latter kind have sometimes been used in a way that discriminates against foreign enterprises operating within the controlled area. Thus the Chilean government sets a price of only 19.37 pesos to the dollar on the exchange it buys from exporters of copper, nitrate, iodine, and certain other commodities that are shipped by large, foreign-owned enterprises.[14] Exporters of most other commodities receive 25 pesos, while the rate is 31 pesos to the dollar for a few commodities whose production by Chilean nationals is encouraged.

Regulations covering outgoing exchange, like those dealing with incoming bills, always specify the price at which transactions may take place. In addition, the stabilization authorities of some countries have been concerned with the distribution of available exchange among different categories of claimants. For this purpose some have adopted a rationing system, and others have used the method of price differentials for different classes of goods and service imports.

In all cases the main purpose has been to aid governments in acquiring and conserving the foreign exchange needed for purchas-

[13] U.S. Department of Commerce, Inquiry Reference Service *Establishing a Business in Colombia*, September 1945, p. 5. In Colombia, however, part of the payment for bills of exchange must be taken in Colombian government bonds, the proportion depending on the type of transaction that produced the exchange. (The same, p. 4.) In Brazil 20 per cent (formerly 30 per cent) of the value of a bill of exchange must be sold to the government at the "official" rate and the rest may be sold in the "free" market.

[14] *Foreign Commerce Weekly*, 1942, Sept. 19, p. 11; Oct. 24, p. 15; Dec. 5, p. 22. Olive Holmes, "Chile: Microcosm of Modern Conflicts," *Foreign Policy Reports*, July 15, 1946, p. 112 The government resells this exchange to importers at 25 pesos to the dollar, thus realizing an appreciable gain (or tax) on the operation. The copper companies are required to sell to the Chilean government only enough exchange to provide them with the pesos needed to cover their production costs in Chile.

ing necessary imports. Therefore the controls adopted have usually discouraged or even prohibited the withdrawal of foreign capital formerly brought into a country. They have also restricted the transfer of interest and dividends payable to foreigners.[15]

The threat of expropriation is a serious risk faced by venture capital working abroad.

A new and serious element of risk has been added in recent decades to the many others that threaten venture capital migrating or operating abroad. This is government expropriation such as has occurred in the Soviet Union, in Mexico, and in various other countries.

In Russia the confiscation of privately owned property followed closely on the fall of the Tsarist regime and the rise of a revolutionary government. It affected agricultural lands and other real estate held by Russian owners, and all instruments of production and distribution, including the factories, warehouses, mines, and transportation and communication facilities in which there was a large foreign interest. By 1921 conditions had greatly deteriorated.

To meet the situation, Lenin proclaimed the beginning of a New Economic Policy under which foreign capitalists were urgently invited to develop various branches of the Russian economy. As late as September 1928 the government was continuing its efforts to attract foreign capital, but a shift in policy was already in prospect. Before the end of the year some foreign concessionaires were facing government charges of nonfulfillment of contract, and a new period of confiscation was soon under way. Of 59 foreign enterprises operating in the U.S.S.R. late in 1928, none was left at the outbreak of World War II.[16]

[15] For the exchange controls adopted by Germany see C. K. Leith, J. W. Furness, Cleona Lewis, *World Minerals and World Peace* (1943), pp 149-54, and references cited there.

[16] On the N.E.P. and subsequent confiscations see *The Commercial and Financial Chronicle*, Sept. 29, 1928, p. 1719; *The Economist*, Sept. 6, 1930, pp. 432-33, Mar. 8, 1930, 515-16. Among the companies taken over were the famous Lena Goldfields and 5 other British enterprises, a German agricultural concession (Drusag) in which the German government had a large investment, and a flourishing Austrian textile mill (B. Altman) The Russian case against Lena Goldfields is presented by Dr. S. A. Bernstein, *The Financial and Economic Results of the Working of the Lena Goldfields Company Limited* (1931).

In Mexico, government expropriation of private property has been extensive—although more or less satisfactory settlements have been made in most cases. It has affected the country's railways, large areas of agricultural land (including sugar plantations and mills, other crop lands, and forest), oil lands and installations, and minor amounts of other properties. Fear of similar treatment undoubtedly has affected foreign investment in other industries. However, the expropriation of oil properties was the only measure in which there was outright discrimination against foreigners.

The government's program of railway nationalization has been applied only to the National Railways of Mexico—in which the government has been the principal stockholder since formation of the company in 1908. (This company owns or controls considerably more than half of the railway mileage of Mexico.) The government first seized control of this railway system in 1914, returned it to private management in 1926, again expropriated in 1937 and, after permitting the Railway Workers' Union to operate the roads for more than two years, turned the technical, administrative, and financial management of the company over to various departments of the government.[17]

The American, British, German, Swiss, and other foreign interests in the system are represented mainly by bonds acquired in exchange for stock of the merged companies or by bonds representing the foreign borrowing of the system and its component roads. Payments on this debt were suspended in 1914, and since then default has been continuous except for a short period when remittances were made under an agreement with the International Committee of Bankers on Mexico. Plans for reimbursing foreign holders of the bonds were announced in March 1946, payments to be made at a

[17] The government was the principal stockholder of some of the roads merged to form the system and at the time of the merger became sole owner of the common stock and owner of part of the first and second preferred. It appears that the government's active participation in railway ownership was motivated by fear that foreign interests might gain too extensive a hold on the railways, but it also appears that foreign stockholders were quite willing to accept bonds of the new company in exchange for their stock Fred Wilbur Powell, *The Railroads of Mexico* (1921), pp. 171, 175-77; Edgar Turlington, *Mexico and Her Foreign Creditors* (1930), pp. 213, 238-39; various numbers of *Poor's Manual of Railroads; Standard Corporation Records, Corporation News Edition*, Vol. L-O, December 1945-January 1946, pp. 4145-46, Vol. L-O, April 1946, pp. 3874, 3876.

very greatly reduced rate over a twenty-nine year period. Except for its origin, this debt has a history very much like that of other Mexican government debts—that is, a history of long continued default.

Expropriation of agrarian lands in Mexico—which began in 1915 and continued throughout the 1930's—affected both Mexican and foreign landholders. In fact land taken from foreigners accounted for only 12 per cent of the total acreage taken by the government and turned over to the villages as *ejidos* (communal lands). Only a little more than 2 per cent of the land owned by foreigners was affected by the seizure.[18] The most serious grievance of expropriated landholders—Mexican and foreign—was the manner in which the government proposed to settle their claims. It was proposed that payment should be made in government bonds of a face value equal to the assessed value of the land for tax purposes plus 10 per cent. This set a value for the bonds far above their market price, for existing bonds of the Mexican government were currently selling at only a small fraction of their face value. That is to say, it greatly undervalued the expropriated properties. In most cases the owners refused to take the bonds. So far as American owners were concerned, this long-standing source of international friction was settled by an agreement signed in 1941.[19]

The oil industry of Mexico was about 97 per cent foreign owned when it was taken over by the government in 1938, and in this case the purpose in hand clearly was to dispossess the foreigner. Mexico's desire to regain control of its mineral wealth was one of the motivating forces in the revolution of 1911 and was given expression in the constitution of 1917. According to this document, ownership of subsoil deposits is vested in the state—a provision that agrees with traditional Spanish law, but conflicts with laws passed during the Diaz regime. Although subject to the same law, the mining

[18] Turlington, *Mexico and Her Foreign Creditors*, pp 310-11.

[19] In settlement of agrarian and certain other property claims, Mexico agreed to pay the United States 40 million dollars, including 3 million dollars that had already been paid, and a further 3 millions paid on ratification of the agreement, the rest to be paid in annual installments of not less than 2.5 millions. On the agrarian debt see the same, pp. 310-11, 319-20, 323, 333; *Standard Corporation Records*, Vol. L-O, April 1946, p. 3874.

companies have for the most part been permitted to continue operations—probably because of the practical difficulties the government would face if it attempted to operate the great number of mining companies that constitute the industry. In oil, concentration of control in a few big companies made the problems of expropriation and government control appear to be easy.

Prior to expropriation, the oil companies were the target of special legislation. A heavy export tax was levied on oil in 1920, and in 1926 a law was passed requiring the companies to exchange their subsoil titles for fifty-year concessions. The break came in March 1938 over wage and other labor legislation which the companies refused to accept. Later in a test case brought by the companies, the Mexican Supreme Court upheld the government's seizure of oil properties—a decision that affected most of the foreign oil companies operating in the country. The controversy then shifted to the question of price, the Court having ruled that while the companies were entitled to compensation for their investment, they should not be paid for oil in the ground.

Finally a committee of experts fixed the amount to be paid for expropriated American companies at $23,995,991 plus $5,141,710 interest ($29,137,701), covering lands, wells, refineries, storage and marketing facilities, railways and rolling stock, but nothing for uncaptured oil.[20] The terms of the agreement as regards method and conditions of payment were made public in April 1943. Meantime, as a contribution to Mexico's war effort, the American government and American oil companies helped Mexico reconstitute the industry whose output for several years had been showing a sharp downward trend.

In February 1946 an agreement was signed by the British, Dutch, and Mexican governments for the appointment of experts to value expropriated British and Dutch properties. More than a year later (September 2, 1947) President Alemán reported than an

[20] *American Petroleum Interests in Foreign Countries*, Hearings before a Special Senate Committee Investigating Petroleum Resources, 79 Cong. 1 sess., p. 316. The Sinclair Oil Corporation negotiated a separate agreement with the Mexican government, receiving from the government 8.5 million dollars for its properties. *Washington Star*, Oct. 3, 1943.

agreement had been reached with Royal Dutch Shell. Under this agreement the company will be paid $81,250,000 plus 3 per cent interest from the date of expropriation. Payments will be made in United States dollars, over a period of 15 years.[21]

In Argentina subsidiaries of American and Foreign Power operating street cars and electrical systems in a number of cities were taken over by the government in 1943-44. In 1946 prospective expropriation of an International Telephone and Telegraph subsidiary had a satisfactory ending for the company, with Argentina paying 95 million dollars for the properties. Somewhat earlier the Argentine government had taken over the highly profitable French-financed Port of Rosario—at the expiration of the concession under which the company operated, and in spite of questionable methods employed to gain an extension of the concession.[22] In 1945 the government expropriated the British-owned gas company (Compañía Primitiva de Gas) serving Buenos Aires, and put an end to the special privileges granted the British-owned street railways of Buenos Aires. Also the government "Commission for Investigation of Electrical Concessions" recommended that various other companies should be taken over.[23]

Public opinion in Argentina has strongly supported the government's acquisition of foreign-owned properties. In fact more far-reaching measures have been favored, including expropriation of the British-owned railways (recently bought by the Argentine government) and various other public-service enterprises. Antagonism toward foreign companies in Argentina, as in many other countries, stems partly from a growing spirit of nationalism. But the reasons most often urged for Argentine expropriations were

[21] *Standard Corporation Records, Corporation News Edition*, Vol P-S, August-September 1947, white p. 1701.

[22] The same, Vol. A-B, August-September 1945, p. 5590; Ysabel F. Rennie, *The Argentine Republic* (1945), pp. 201, 259-61

[23] Rennie, *The Argentine Republic*, pp. 376-77; *New York Times*, Mar 6, 1945, p. 27; *The Inter-American*, April 1945, p. 41. Drastic action against two European-owned electric power systems was recommended by the government's investigation commission: C.A D E. (Compañía Argentina de Electricidad) controlled by Belgian and other European interests through Chade and Sofina, and C.I.A.D.E. (Compañía Italo Argentina de Electricidad) controlled by Swiss and associated interests through Motor Columbus. The same, February 1946, p 42.

that the companies have been highly inefficient, their service rates extortionate, and their equipment old and in disrepair. Argentine nationalists accused the railroads of watering their stock to such an extent that reported earnings greatly understate the real rate of return on the actual investment.[24] It was also charged against the railways and the street car company of Buenos Aires that they actively tried to prevent the building of a modern road system in Argentina and to discourage an increase in automobile traffic—particularly the growing competition of truck and bus companies. In fact, the ten most important railways presented a memorial to the Argentine government protesting against the building of highways with "money taken from them in taxes."[25]

Certain other Latin American governments have expropriated foreign-owned properties—with or without adequate compensation. In 1937 the government of Bolivia seized all properties of Standard of New Jersey's subsidiary (including not only the wells, pipe lines, and machines and equipment, but also maps, drilling data, and office furnishings, even rugs and paintings), charging illegal export of oil. But having seized these properties, Bolivia lacked both the capital and technical experience for continuing operations and was forced to import oil—from a Standard subsidiary in Peru. Payment was not made until 1942 when Bolivia was seeking a loan from the Export-Import Bank. The amount then paid (1.7 million dollars, including interest) was 10 per cent of the valuation given the properties in the company's 1937 balance sheet.[26]

Brazil has expropriated railway properties belonging to both American and British investors.[27]

The government of Chile (1939) took over the refining and distributing system owned by a Royal Dutch Shell subsidiary and

[24] Rennie, *The Argentine Republic*, pp. 155-59, 240-42.

[25] The same, pp. 232, 239; The National Institute of Economic and Social Research, *Trade Regulations and Commercial Policy of the United Kingdom* (1943), pp. 175, 198. The charge is supported by the fact that the Roca-Runciman Treaty promises "benevolent treatment" to British capital This promise was interpreted to mean cessation of competition with Britain's extensive investment in the transportation system of the country.

[26] Standard Statistics card, September 1940, *Poor's Industrials* (1939), p. 2740; Standard of New Jersey, *Annual Report*, 1941, p. 10, *American Petroleum Interests in Foreign Countries*, Hearings, p. 22.

[27] Karl Lowenstein, *Brazil under Vargas* (1942), pp. 211, 325.

turned the properties over to a recently organized government oil monopoly. The government has also bought from American and Foreign Power the street car subsidiaries serving three important Chilean cities—apparently at a price that was mutually satisfactory.[28]

The government of Colombia in 1943 adopted its "Economic Program," a law which provides for expropriation of foreign-owned public utilities of all kinds regardless of the nationality of their control. Later in the same year, amendments to the law provided for the organization of the Department for the Control of Foreign Property. The following year a government agency, the Telecomunicaciones Nacionales, was organized under executive decree. This agency is expected eventually to have full control of all communication services of the country and is now in process of taking over the properties of foreign companies, giving its own shares in exchange. Subsidiaries of two American corporations are affected by the decree.[29]

In Uruguay the International Telephone and Telegraph subsidiary serving the capital city was expropriated in 1934.[30]

While the cases cited above include the best-known examples of government expropriation affecting foreign capital, the list is not complete. Seizures have taken place in other Latin American countries, and in other parts of the world. The movement has been general enough so that the threat of expropriation clearly is one of the risks that the investor has to consider in weighing the odds for and against the export of capital.

Labor laws impose certain restrictions on enterprises operating abroad.

Recent years have seen a decided trend toward nationalistic labor legislation in countries where foreign capital holds a controlling interest in important industries. While these laws are designed to protect native labor, they may also serve as tools for carrying out the nationalization programs of the governments concerned. Some

[28] *Standard Corporation Records, News Edition*, Vol. P-S, October-November, 1945, p. 4225; the same, Vol. A-B, August-September 1945, p 5590.
[29] *Memoria de Hacienda* (Treasury Report), 1943, pp 33-35, 77.
[30] *Moody's Governments, 1940*, p. 1988.

of these laws clearly are aimed at foreign enterprises. Others that appear to be general in their application may, in practice, apply primarily to foreign companies because they single out for special treatment the large employers and large enterprises—which usually are foreign.

Since 1930 all of the Latin American republics have enacted laws that restrict the employment of foreigners,[31] and similar laws are on the books of other countries. These laws set limits on the utilization of labor brought in from low-wage countries—for example, from India and China. In many cases their more important purpose is to restrict the employment of foreigners in the highly paid professional and technical jobs. They also put upon the employing enterprise the obligation of giving technical and professional training to native workers who will eventually replace foreign employees in the better paid positions. Begun as a means of lessening unemployment during the early days of the depression, such legislation now has its place in nationalization programs.[32]

Mexican law requires that not less than 90 per cent of the workers in each class of skilled and unskilled work must be Mexican—but in the computation of the percentage, directors, administrators, superintendents, and general heads of enterprises are not included. Mexico also prohibits aliens from practicing the liberal professions. In Bolivia nationals must make up 85 per cent of the labor force of an enterprise. Colombia requires that its nationals make up at least 90 per cent of the wage earners of an enterprise and 80 per cent of the salaried staff and receive at least 80 per cent of the wage pay roll and 70 per cent of that for salaried personnel. In Peru the required ratio is 80 per cent of the employees of an

[31] George Wythe, *Industry in Latin America* (1945), p. 53.

[32] These summary statements are based principally on reports by the American Republics Unit of the U.S. Department of Commerce, *Establishing a Business in . . .* [*Colombia*, August 1944, February 1945, *Brazil*, January 1944, *Mexico*, May 1944, *Peru*, January 1945, *Venezuela* November 1944, February 1946]; U.K. Dept. of Overseas Trade *Reports* on Mexico, Brazil, Peru, and Portuguese Africa; C. K. Leith, J. W. Furness, Cleona Lewis, *World Minerals and World Peace* (1943), pp 160-65; unpublished report prepared by Joseph H Barkmeier, British Empire Unit, Department of Commerce. See also *Law and Contemporary Problems*, Summer-Autumn 1946, pp. 720-40. For provisions covering employment in nationally incorporated air lines see William A. M. Burden, *The Struggle for Airways in Latin America* (1943), p. 52.

enterprise and 80 per cent of its total pay roll. This 80 per cent law also applies to the actual number of commercial and industrial concerns, and even to the number of professional men in any one province. In Venezuela the percentage is 75 for both wage earners and salaried personnel; and in Brazil is 66⅔ per cent.

In the interpretation of these laws, a liberal definition is given to the term "national," in most cases no more being required than ten years' residence in the country or marriage to a native. Also exceptions may be made to permit the entry of specialists not obtainable among the nationals of the country concerned. At times these laws do hamper industrial development in Latin America. For example, in 1938 Brazil passed a law placing oil refining entirely in the hands of native-born citizens. This caused the immediate stoppage of work on a small refinery that Standard of New Jersey was then building in São Paulo.[33]

Information is readily available for a few other countries. Foreign firms operating in the United Kingdom meet no difficulty in sending in directors and employees of managerial status, but technical employees are usually permitted to remain only long enough to train local employees for the work, while the sending in of unskilled labor is rarely if ever permitted. In Sweden special permission is required before a foreigner may accept employment or follow any occupation. Norwegian and Romanian law gives preference to nationals. In the Portuguese colony of Mozambique, 70 per cent of the employees of a company operating in the territory must be Portuguese nationals.

The state of Arizona in 1914 passed a law requiring employers of more than 5 workers to employ not less than 80 per cent "qualified electors or native-born citizens of the United States or some division thereof." This law was held unconstitutional by the District Court of the United States for Arizona.[34]

To soften the effects of unemployment, many Latin American countries require severance pay for dismissed workers unless the employer has met prescribed conditions. In general, the amount to

[33] Testimony of Edward F. Johnson, General Counsel, Standard Oil Co. (N.J.), *American Petroleum Interests in Foreign Countries*, Hearings, pp. 83, 394.

[34] Green Haywood Hackworth, *Digest of International Law*, Vol. 3, p. 612.

be paid depends on the length of service, but in some countries (Colombia and Peru, for example) it also depends on the kind of work and the capitalization of the company. In Mexico a limit of three months' pay is set, and in Chile six months'. In Bolivia after a certain length of service, an employee is entitled to severance pay even when he leaves the job voluntarily. In certain countries dismissal pay may accumulate to such an amount that it is cheaper to keep an unwanted worker on the pay roll than to pay the dismissal wage.[35]

In December 1938 Venezuela made profit-sharing with employees compulsory for industrial and commercial enterprises and for certain large agricultural and fishery enterprises. As amended in May 1945, this law requires such business concerns to distribute among all of its workers at the end of each fiscal year at least 10 per cent of the year's net profits—allowance having been made for expenses, interest on invested capital, and for certain reserves.

Group life insurance at the expense of the employer is required in some countries for enterprises having a certain minimum pay roll.

Bolivia's labor code provides that after one year's service salaried employees are entitled to three months' sick leave with full pay and laborers thirty days. It also calls for free dental care of employees of mining, industrial, and railroad firms employing more than five hundred laborers.

Without passing judgment on the desirability of legislation for the protection of the workers, it may be pointed out that it is of direct importance to enterprises operating abroad. Most of the capital affected by such laws is foreign, for most of the large employers are foreign. The protected workers are nationals of the countries concerned.

In the mineral industries foreign investors face discriminatory treatment.

Swedish law frankly discriminates against foreigners by prohibiting foreign exploration of mineral resources. An appeal to the

[35] From Department of Commerce reports cited in note 13, p 149 The statement regarding Bolivia is from a copy of the law published in the La Paz newspaper, *La Razon*, Aug. 24, 1943.

King may sometimes enable a foreigner to acquire a mine already explored and claimed, but the right of exploration is reserved for Swedish nationals.

In France and its colonies the government has wide discretion in granting concessions for exploring or developing mineral resources. However, alien ownership in any concession is limited to a one-third interest.

In the Belgian Congo (and also in Belgium) foreigners are permitted to own property on the same footing as Belgians provided they establish domicile in the country and incorporate under Belgian law. The decree granting a concession may require that a certain percentage of the stock must be held by Belgians (80 per cent in one case), or that a certain percentage of the material used must be purchased in Belgium (typically 80 per cent).

The prewar mining laws of China restricted mining rights to Chinese citizens. An exception was made for citizens of treaty-power nations, provided they were doing joint business with Chinese, but the foreign interest in such business could not exceed 50 per cent. Revision of these laws was begun in 1943.

In the constitution of 1926 Brazil took decisive steps in the direction of nationalizing its mineral and water-power resources and of closing the door against alien control over such resources. The new constitution promulgated in September 1946 states that: "The employment of mineral resources, and those of hydraulic energy, depend upon federal authorization or concession, as provided by law. Authorizations or concessions shall be granted exclusively to Brazilians or to concerns organized in the country, . . ."[36] The intention of this section of the law appears to be to lift the ban on foreign investments in oil and mineral production, permitting participation of foreigners with Brazilians.[37]

In most of the British colonies, restrictions are in force against foreign ownership and control of minerals, particularly oil. Malaya is the exception to the rule. In British India prior to partition only

[36] Title V, Article 153 (reproduced and translated in *Brazilian Business*, September 1946, p. 65).

[37] *Brazilian Bulletin* (published by Brazilian Government Trade Bureau), June 15, 1947, p. 1.

British subjects or companies controlled by British subjects were permitted to prospect for or produce the major minerals.

The mining laws of the Netherlands and its colonies do not explicitly discriminate against foreigners who meet certain requirements regarding domicile and incorporation. But since the conditions governing mineral concessions are not generalized under Dutch law, such discriminations actually exist. Under the mining law of the Dutch East Indies, each application for mineral rights—whether for nationals or foreigners—must receive legislative approval before the grant can be made. And for many years, such approval was not given to foreign oil interests. To meet this situation, the United States government in 1922 refused the application of a Royal Dutch-Shell subsidiary for a lease on public lands and threatened further retaliation. Settlement was finally reached in 1928, providing for American participation in Dutch East Indies oil and restoring to Dutch nationals the privilege of leasing public mineral lands in the United States.

In the United States, until the federal leasing act[38] was passed in 1920, the minerals of the country were available to all comers. But under that law, participation in the development of public oil lands may be denied to foreigners whose governments exclude Americans from the exploitation of their mineral resources. Profitable operation of mining companies—foreign and American—is affected by a variety of special state taxes, such as occupation taxes, royalty taxes, and severance taxes. These are based on the principle that the heritage value in minerals belongs to the several states of the union. In effect they have greatly reduced the value (to the owner) of deposits already in private hands.

Inequitable taxation is an obstacle to foreign investment.

International double taxation of foreign properties and incomes derived from foreign-investment is generally recognized as an obstacle to the international migration of capital. Tax authorities in many capital-exporting countries undertake to levy and collect a tax on the entire income of individuals and companies resident in

[38] 41 Stat. 437.

their territories, including all income earned at home and abroad. At the same time, the authorities in capital-importing countries extend their tax jurisdiction over foreign companies operating within their territory. Some capital importing countries limit their claims to a tax on the profits of a local branch or sales agency, others try to reach foreign parent corporations, and even "foreign grandparent or great-grandparent corporations."[39] This overlapping of tax jurisdictions tends to discourage both investment and trade.

As an aid to foreign trade, the Netherlands tax law of 1893 made provision for offsetting certain tax payments abroad against taxes that *individuals* paid to the home government; and in 1918 such tax relief was also granted to domestic companies having foreign income. Similar unilateral action was taken by Belgium, the United Kingdom, the United States, France, Italy, and various other states. But while these governments took steps to give their own nationals a measure of relief from the burden of double taxation, some of them continued to penalize foreign capital operating within their boundaries. For example, French law holds that a foreign company with a French subsidiary is liable to tax (1) on the dividends and interest it receives from this subsidiary, and (2) on the interest and dividends it pays to its own security holders (except those in France) in the ratio that the property in France bears to the entire property of the parent company. Similar laws are in force in Switzerland, Greece, and the Netherlands.[40]

Some progress was made in solving the problem of international double taxation in the interwar period, when a considerable number of bilateral treaties were concluded. However, a League of Nations report published shortly before the outbreak of World

[39] Mitchell B. Carroll, *Prevention of International Double Taxation*, League of Nations Pamphlet (1939), p. 6. Some corporations consolidated their foreign business under the control of a single foreign subsidiary which paid taxes only in the country where incorporated See case cited by Rennie, *The Argentine Republic*, p. 255.

[40] The income tax law applying to foreign companies operating in the United States is summarized in *The Commercial and Financial Chronicle*, July 25, 1946, p. 483. A summary of the problem of double taxation is given by Donald B. Marsh, *American Direct Investments Abroad*, mimeographed by Chase National Bank (1945), pp. 23-28.

War II, pointed out that much remained to be done.[41] More recent treaties include those concluded between the United States and Canada (June 1942), Britain and the United States (April 1945), Britain and Australia (May 1946), and Britain and Canada (June 1946).[42]

Countries whose principal industries are foreign-owned are often accused of tax discrimination against foreign capital, although the intent of the tax authorities may be to assure ease and convenience in the collection of revenues. For example, the tremendous importance of the nitrate and copper industries to Chile and of oil to Venezuela would argue for those industries bearing an appreciable part of the fiscal burden of the respective countries, regardless of nationality of control. Where the foreigner foots the bill, however, there is a tendency to exact all that an industry can possibly bear. In the case of copper the Chilean government has imposed a heavy income tax, what amounts to a tax on exchange transactions (see page 149), and an "extraordinary" tax that absorbs the greater part of the wartime copper-price increase. The net result is a tax burden so heavy that it may severely handicap the Chilean product in world markets where it must compete with the lower-cost copper from African and Canadian mines.[43]

It is not often that discrimination against foreign capital is the clearly indicated purpose of tax laws, but some cases exist. In prewar China industrial products were classified for tax purposes according to the degree of control exercised by Chinese capital—the greater the participation of Chinese capital, the lower the tax.[44] But for the future the Chinese Ministry of Information has given assurance that to encourage foreign investment a "sound and simple" taxa-

[41] Carroll, *International Double Taxation*, pp. 42-44. In 1932 and 1933 the League of Nations published a five-volume study, *Taxation of Foreign and National Enterprises*, covering the laws of 23 countries and 3 states of the United States.

[42] *Foreign Commerce Weekly*, Aug. 22, 1942, p. 10; *Wall Street Journal*, Apr. 25, 1945; *Financial Times* (London), June 7, 1946.

[43] *Foreign Commerce Weekly*, Dec. 19, 1942, p. 16; Holmes, *Foreign Policy Reports*, July 15, 1946, pp 111-12.

[44] Kuang Tai Hu, "Investments in Chinese Postwar Industry," *Harvard Business Review*, Spring 1943, p. 314.

tion "system will be provided to treat foreign investors in exactly the same way as Chinese investors."[45]

In the Union of South Africa the law covering trading licenses provides that every South African company and every foreign company must pay an annual license fee of 5 shillings for every 1,000 pounds sterling of subscribed capital of the company. This tax is levied on the entire capital of a foreign company having a place of business within the Union. A foreign corporation may escape discrimination under this law by establishing a local subsidiary in the Union.[46]

Some countries discriminate against enterprises doing business within their borders but incorporated abroad, as distinguished from enterprises incorporated under domestic law, without regard to the source of the capital. Brazil is an example.[47] In this case, however, the purpose is to bring all companies within the jurisdiction of the Brazilian courts. Discrimination against foreign capital as such does not appear to be the intention of the law.

Government competition in industry sets limits on the operations of foreign enterprises.

In Argentina the government has long been in the business of producing, refining, and distributing oil in direct competition with foreign companies. In this case the fact that Argentina is on an import basis for part of the oil required weakens the government's competitive position. Also the Argentine government has recently given aid to co-operative and municipal plants producing electric power, an industry that is largely foreign owned.[48]

The Uruguayan government competes with private industry in commercial fishing and fish canning and production of fertilizers and industrial chemicals. In Brazil the business of supplying meat

[45] *The Statist*, Mar. 23, 1946, p. 255.

[46] From an unpublished memorandum prepared by Joseph H. Barkmeier, British Empire Unit, U.S Department of Commerce

[47] Brazilian Government Trade Bureau, *Corporations, Labor and Tax System in Brazil* (1945), p. 27; *The Inter-American*, November 1944, pp. 43-44.

[48] Wythe, *Industry in Latin America*, p. 116. In an effort to improve the country's transportation system the Argentine government has acquired and operates about a quarter of the country's railway mileage, most of the remainder being foreign owned.

to the city of São Paulo is divided between municipal and foreign-owned packing plants in the ratio of 60 to 40.[49] In France during the interwar period, the threat of government competition in the oil industry was brought to bear on the big foreign oil companies to persuade them to provide the additional storage capacity and supplies wanted for war purposes. Many governments also exercise a monopoly in certain fields of industry, and in such cases all private capital both foreign and domestic is excluded from the industry affected.

Hostile action is sometimes taken by the nationals—not the government—of a country.

In the late 1920's in two of the great creditor countries, Britain and France, antagonism against foreign investors was general and outspoken. This was evidenced by discriminatory measures adopted by some of their leading business corporations. Their openly declared purpose was to prevent American capital from gaining control of the management and policies of the companies.

The method followed in Britain may be illustrated by the case of General Electric, Ltd. At a shareholders' meeting in September 1928, it was noted that 60 per cent of the company's shares were held by Americans—British control was threatened. Thereupon the meeting voted that shares owned and controlled by foreigners (American) should have no vote at any general meeting of the company. It also voted in favor of a new issue of shares known as "British ordinary" shares, to be sold to British stockholders at a price approximately 35 per cent of the current market. These new shares were made subject to provisions that specifically prevented their acquisition or control by foreigners.[50] The action of the company was severely criticized in the British press and was contested by American shareholders through a committee sent to represent them in London. As a result, the proposed issue of shares was withdrawn from the market. The question of votes for American shareholders was made academic in 1935, when a London group

[49] The same, pp. 127, 187.
[50] *The Economist*, 1929, Mar. 16, p. 583, Mar. 23, p. 636; *The Statist*, Mar. 16, 1929, pp. 440, 473.

repatriated some 400,000 shares of American-held stock, including shares held by General Electric of New York.[51]

The usual method chosen by French companies for retaining control in French hands was the issue of plural-voting shares, sold only to French nationals. A long list of French companies resorted to this method when American buying of their shares was active in the late 1920's. The movement was under way by 1925, and by the close of 1927 at least 71 companies had issued plural-voting stock, increased to 231 companies a year later.[52]

Then on April 26, 1930, the French legislature passed a law prohibiting further issues of such shares. This was amended by the law of November 13, 1933, which stipulated that the voting rights of all shares of stock should be proportional to the subscribed capital represented. To encourage the issue of registered stock (whose owners are readily identified for tax purposes), it was provided that two votes might be given registered stock as against a single vote for a bearer share representing the same amount of capital.

Various other restrictions and controls hinder the international flow of capital.

Further handicaps of various kinds threaten the successful placement and operation of capital in foreign countries. For the most part they stem from laws and regulations adopted by the governments of capital-receiving countries. Reference has already been made to such controls in the mineral industries, also to controls incorporated in labor laws, tax laws, and currency regulations. But other industries are also affected, and other methods of control used. Only a few of these will be given brief consideration here.[53]

Governments sometimes set definite limits on the extent to which foreigners are permitted to participate in important industries.

[51] *The Economist*, Aug. 24, 1935, pp. 385, 398; *Poor's Industrials*, 1939.

[52] *Bulletin de la Statistique Générale de la France*, April-June 1929, pp. 308-09.

[53] Most of the laws not considered here are those that have to do with protecting the safety, health, and morals of the people. Such laws are on the books of a number of countries, including the United States and certain states of the United States. Hackworth, *Digest of International Law*, Vol. 3, pp. 617-24; *Law and Contemporary Problems*, Summer-Autumn 1946, pp. 724, 776, 783-84.

Until 1943 Chinese law required that at least 51 per cent of the stock of companies engaged in manufacturing or mining should be held by Chinese, and that a majority of the directors, the chairman of the board, and the manager of the company should be Chinese.[54] Colombia, Brazil, and Mexico have similar laws regarding most types of companies; and Eire, with regard to manufacturing concerns.

In Sweden a foreign company must have a royal permit in order to do business "as a resident" of Sweden, and not many of these are granted. Otherwise it may establish a Swedish company in which at least two thirds of the board of directors must be Swedish.[55]

The attitudes shown toward foreign investments and investors—as expressed by the laws and acts of government of various countries—indicate the mixed feelings with which foreign capital is received. While the advantages to be gained from its use are eagerly wanted, impatience or resentment is frequently shown toward the obligations incurred by the receipt of such capital. This has sometimes been put into words by nationalistically minded citizens and officials of the receiving countries.

Aleksei Ivanovich Rykov, while chairman of the Soviet People's Commissar, was quoted as saying: "We need foreign capital but we do not need foreign capitalists." This was at the time when expropriation was under way in Russia. Under one pretext or another the government was liquidating investments that foreigners had made in response to invitations extended under the New Economic Policy.[56]

An Indian businessman has expressed a similar conflict of emotions. G. D. Birla, member of an Indian business firm and also a man with a long record of service on various business and government commissions, recently stated:[57]

[54] *The Statist*, Mar. 23, 1946, p. 255, *Contemporary China*, Feb. 7, 1944, on Mexico, see p. 136 above

[55] Department of Overseas Trade, *Economic Conditions in Sweden*, April 1932, pp. 45-46.

[56] *The Economist*, Mar. 8, 1930, p. 516.

[57] "Industrialization in India," *The Annals*, May 1944, p. 125.

It should be made clear that India needs and would import from abroad real physical capital such as plant, equipment, and machinery, for accelerating our industrial development. What is objected to is not such real capital but the ownership, control, and direct operation by foreign nations of key and important industries of the country.

A Brazilian official summarized the goal his country was seeking in its policy toward foreign capital as follows: ". . . to maintain the development of the country independent of foreign loans while trying to attract investments which may contribute to the future of the nation without depriving Brazilians of their own natural wealth."[58] Ex-President Vargas expressed a similar reluctance to continued dependence on foreign capital, but accepted the alternative of undertaking to mobilize domestic capital.[59]

It is understandable that the government and people of underdeveloped countries should be deeply concerned with protecting their economic and political independence. In the main, this is the purpose of laws directed against foreign capital. But if economic benefits are to be derived from the use of foreign capital, then reasonably satisfactory conditions must be offered—conditions that take account of the ambitions and aspirations of the receiving country but do not, in effect, close the door to foreigners with funds to invest.

[58] Wythe, *Industry in Latin America*, p. 160.
[59] The same, p. 160.

CHAPTER VIII

RESPONSIBILITIES OF THE PRIVATE INVESTOR

Many factors contribute in one way or another to the success or failure of a foreign investment. Analysis of these various elements will, in many cases, indicate the probable outcome of a proposed venture. It is therefore incumbent upon the prospective investor to make a thorough and careful appraisal of a project and all that it is likely to involve before embarking on it. This is particularly important if "other people's money" will be used. Unforeseeable changes in the situation may, of course, upset the best laid plans. In that event, as experience shows, the risks involved are likely to be political in character. That is to say, unexpected shifts in government policies offer more uncertainty than physical or commercial risks. The present chapter will consider problems and risks that the investor must face, and responsibilities he assumes when he sends capital abroad.

I. EVALUATION OF FOREIGN LOAN OPPORTUNITIES

In the United States certain information must be fully and accurately set forth in the registration statement required by the Securities and Exchange Commission before a security issue, foreign or domestic, can be offered for sale through the mails or through other means of interstate transportation and communication. Part or all of this information must also be included in the prospectus used in offering the securities for sale. It is the purpose of the government to give the investor the protection of information free from fraud and misrepresentation; but it is not its purpose to give advice nor to guarantee the soundness of a security.

Responsibility for analyzing available information and the choice between various investment opportunities is left to the prospective purchaser and to his advisers. In this connection a major responsibility rests on the banking groups that originate and market an issue. The investor is interested in the promised rate of return and

the probable safety afforded by one opportunity as compared with another. This calls for consideration of a number of large questions, including capacity to utilize borrowed funds, capacity to meet the specified future payments, and attitudes toward the problem of payment as indicated by past performance.

Capacity to use borrowed funds will depend on physical, economic, and political conditions.

Whether the borrower is a governmental body or a private corporation, borrowed funds must be put to productive use. Otherwise they will soon be consumed, while the obligation for servicing the loan will remain as a recurring charge against other income. Therefore, the borrower should have definite and detailed plans—and should inform prospective investors—regarding the specific purpose the loan is to serve. Whether the stated purpose is a feasible one and one that will prove productive is a question that may call for advice from specialists acquainted with the physical and economic resources of the borrowing country and with the technical problems presented by the project in hand.

For example, borrowed funds used in building good roads to connect a large area with world markets will increase the income and the taxable capacity of the area—beneficial to producers and government alike. But an equally good road will be worthless if built into an unproductive desert, and such roads actually were built during the 1920's. The development of a waterpower site may provide a country with a highly profitable asset. But if the flow of water dries up during a certain part of the year—as was the case with one project financed by an American loan in the 1920's—it cannot be made the basis of an important industrial development.

Political conditions within a country also favor or impair its capacity to use borrowed funds productively. A stable and friendly government is encouraging to business activity. An equitable and adequate tax system contributes to economic stability. Honest government inspires confidence at home and abroad.

Capacity to service a foreign debt depends on the national budget and on ability to transfer payment.

In order to meet payments on a new foreign loan, the borrowing government must be able to collect revenues sufficient to meet its ordinary expenses (including payment on existing debts) and also the additional amount required for servicing the new debt. If expenditures are already in excess of receipts from sources other than borrowing, ways and means of converting a deficit into a surplus need to be explored. Account is taken of this problem in the Securities Act of 1933. Among the information required before a new foreign issue can be offered for sale are the following: (1) the amounts and character of existing and prospective debts of the issuer; (2) receipts and expenditures classified by purpose, for the latest fiscal year for which such information is available and for the two preceding years, year by year.

The other requirement is ability to transfer payment. No transfer problem is created when a government borrows from its own people. The currency in which the government collects its revenues is the currency it uses in meeting debts due within the country. But foreign debt agreements in practically all cases call for payment of interest and amortization charges in the currency of the lending country. This may present a difficult problem even for a debtor government or corporation whose budget situation is thoroughly satisfactory. To meet payments in accordance with the loan agreement, the borrower must be able to secure the required currency—for example, dollars, sterling, or francs. The International Monetary Fund will facilitate the exchange of one currency for another, but it cannot change the basic problem involved.

The crux of the transfer problem for any country lies in a comparison of its foreign sales and purchases—including transactions in commodities, gold and silver, shipping services, insurance, the tourist trade, and other international transactions. If a country sells abroad as much as it buys of all kinds of goods and services, then foreigners will require as much of its currency to meet their pay-

ments as it will require of foreign currencies. Therefore, the country in question should experience no great difficulty in obtaining the currencies it requires—assuming a free exchange market throughout the world, and assuming there is no excessive concentration of the world's purchases in a single market. But if additional foreign debt is incurred, calling for additional payments in foreign currency, then the international accounts of the debtor country must show either an increase in sales or a decrease in purchases if all requisite transfers of payment are to be made. That is to say, the transfer problem can be met if the borrowed funds can be used to produce additional exports or an additional supply of goods that otherwise would be imported.

In considering the outlook for a new loan, the debt history of the borrower should be reviewed.

Reference to a country's debt history will furnish information useful in judging the probable risk involved in a new loan. The Securities Act of 1933 requires that two decades of debt history be written into the registration statement for a foreign loan that is to be issued here. The statement must show

> . . . whether or not the issuer or its predecessor has, within a period of twenty years prior to the filing of the registration statement, defaulted on the principal or interest of any external security, excluding intergovernmental debt, and, if so, the date, amount, and circumstances of such default, and the terms of the succeeding arrangement, if any.

If the debt record of a country shows default, fairness to the debtor calls for a review of all the facts in the situation. Perhaps the terms covering earlier loans were so oppressive that even the most willing debtor could not have avoided default. On the other hand, default may have been accompanied by bad faith. Revenues pledged for servicing a foreign loan may have been diverted to other uses; or foreign exchange actually available for debt service may have been used for repatriating bonds in default and therefore depreciated in price.[1]

[1] As already stated on p 142 above, no blame attaches to the repatriation of bonds on which full debt service is maintained.

In comparison with the terms imposed on foreign borrowers during the nineteenth century, the terms extended to "poor risks" in the 1920's were generous. However, in the 1920's an effective interest rate of more than 9 per cent plus sinking fund payments was promised by a number of needy governments, and a considerable number promised rates as high as 8 per cent. Looking toward the future, it is not likely that such difficult terms will be imposed on foreign borrowers. The Bretton Woods agreements provide that loans to weak governments may be handled through the International Bank at rates considerably below those charged in the interwar period. The Bank will assume the risks formerly carried by the individual investor, charging the borrower a commission for the service.[2]

Attention should be given to the problem of default prevention and adjustment.

The loan contract in many cases provides a procedure to be followed if default threatens, particularly if the loan is made to a weak borrower. In past decades borrowing governments often pledged certain types of income or certain properties as securities for their loans. In some cases they also specified the legal steps that bondholders might take in order to secure payment. Such pledges were almost always required of private foreign borrowers. But when default occurred, it frequently happened that bondholders found these protective pledges "not worth the paper they were written on." Gun-boat diplomacy as an aid to their enforcement belongs to an era of the past, and legal action to secure fulfillment of contract or adjustment of the default could accomplish little or nothing unless the debtor had assets in the lending country.

Lacking a means of enforcing the terms of their contracts, holders of defaulted bonds have sometimes been able to reach a satisfactory settlement of a default by negotiating with their debtors through the agency of a bondholders' committee. In fact this method of

[2] Art. 4, sec 5 of the act stipulates that this rate shall be not less than 1 per cent nor more than 1½ per cent per annum during the first 10 years of the Bank's operations

dealing with default is generally adopted, particularly in the case of defaulting governments. In some of the creditor countries permanent bodies have been organized for the purpose of protecting the interests of foreign investors.

Britain's Corporation of Foreign Bondholders was formed in 1868 for the specific purpose of protecting foreign securities holders. This organization, though not an agency of the government, is able to put pressure on foreigners contemplating default or in actual default because it is closely allied with the big London banks and issue houses. On the request of persons whose rights under a loan or other contract have been disregarded by a foreign government, the corporation aids in the formation of a special committee to deal with the question at issue. Over the years it has participated in the settlement of debts aggregating more than 5 billion dollars.

In France the *Office national des valeurs etrangeres* was organized in 1898 by the *agents de change* or members of the Paris stock exchange. This action was taken on the advice of the Minister of Finance, who pointed out the practical difficulties that prevented individual bondholders from taking action against defaulting foreigners.

In the United States the Foreign Bondholders' Protective Council, Inc. was incorporated in December 1933 to protect the interests of American investors in foreign bonds. Here the initiative was taken by the Department of State and the Treasury Department, at the urging of American investors. The Securities Act of 1933 provided for an additional quasi-governmental agency to perform this same function, but in 1938 the conclusion was reached that the existing Protective Council "was the more appropriate body."[3]

These several bondholders' associations have performed an added service for the investing public by bringing together and preserving information that throws light on the financial situation and investment position of borrowing governments and foreign corporations and also on legislation that affects the interests of investors. This information is useful in dealing with prospective or actual default and also may prevent future defaults if given careful consideration in connection with proposed new issues.

[3] *The Commercial and Financial Chronicle,* Jan. 15, 1938, p. 364.

It is sometimes urged that the repayment clause in loan contracts should be more flexible.

Since the protective clause of past years proved generally ineffective unless supported by force, an alternative provision is sometimes suggested. It is suggested that loan contracts in the future should contain a waiver clause similar to that embodied in the contract covering the American loan to Britain of 1946. The waiver provision in that contract, in brief form, is as follows: The government of the United States will grant a waiver of interest payments in any year that, (a) the government of the United Kingdom finds a waiver necessary in view of international exchange conditions and the level of its gold and foreign exchange reserves; and (b) the International Monetary Fund certifies that Britain's international income from domestic exports and international services of all kinds averaged less per year for the five preceding years than the yearly average for imports in 1936-38—account being taken of changes in the price level.

A cursory consideration of the probable results of including a waiver clause in foreign loan contracts raises a number of questions. Would the investor risk his savings in a government loan that anticipates a cessation of debt service in difficult years? That is, would the investor accept risks that ordinarily attach to the ownership of common shares unless his contract also contained a corresponding promise of increased payments in good years? Would the terms of the contract prove sufficiently unequivocal to satisfy the lender as well as the borrower? Could the Monetary Fund, or some similar organization, obtain a sufficiently accurate measure of the debtor's international position to serve the purpose in hand? With the loan contract providing a painless method of meeting the problem of debt service, could the debtor be relied upon to put forth the extra effort that might make actual payment possible in difficult years? Would the assistance rendered the borrower by the application of such a waiver perhaps redound to the benefit of the lender by markedly shortening the period during which interest payments were suspended?

These questions suggest that, in general, a waiver clause is impracticable; it would usually prevent the flotation of loans in the private capital market—except in cases where the credit was indubitably good.

II. APPRAISAL OF BUSINESS OPPORTUNITIES ABROAD

The preliminary survey that precedes the investment of capital in a business or industrial enterprise located in a foreign country must cover many questions. The technical problems involved will vary with the character of the industry considered. Certain other questions will be raised in any appraisal of opportunities for developing the natural resources, industries, or markets of foreign countries.

Account must be taken of physical factors affecting a proposed direct investment.

In the extractive industries, the gifts of nature are of major importance. Minerals can be extracted from the subsoil only in places where they have been formed by slow natural processes operating through the ages. Discovery of such mineral deposits in commercial quantities is the prerequisite for successful investments in oil or other mineral production. American companies have carried on a world-wide search to locate important occurrences of some minerals. The oil industry today employs thousands of geologists and geophysicists trained to search for and recognize the promise of oil. The large metal-mining companies employ geologic prospectors and physicists to search for metallic ore bodies.

Climatic conditions, soil, slope, and water supply may determine the success or failure of a plantation—rubber, sugar cane, banana, and other types. The topography of the land presents an important engineering problem to be considered in the planning of a railway and in estimating its operation cost. The market for goods offered by a sales organization located abroad will depend on many factors including climate. Even the quality of some manufactures—particularly textiles—is influenced by natural conditions.

The number and quality of the available labor force may be the determining factor in the success or failure of a new enterprise. In

the hearings before a congressional committee investigating the possibility of developing an American-controlled supply of natural rubber in 1926, the discussion reverted again and again to the question of labor. The Philippine Islands were suggested as a promising location but according to the experts the Islands could not furnish the labor that would be required for a large plantation industry and would be unwilling to admit the requisite Chinese labor.[4]

A Firestone investigating party studying the possibilities of rubber production in Mexico and Central America reported that climatic and soil conditions were favorable and land plentiful, but the labor supply was inadequate.[5] A similar survey was made in Liberia by another Firestone party that ". . . explored hundreds of miles into the interior to determine the topography and suitability of the country for rubber growing and also to find out about the availability and condition of labor."[6] In this case the report was favorable and a concession was obtained.

Cost and market factors should be carefully considered.

In addition to the usual cost and market factors considered in choosing the location for a proposed new domestic enterprise, there are others that apply more specifically to the choice of a foreign location. For example, in discussing studies made in choosing a site for the Creole Petroleum Corporation's new Venezuelan refinery (built to comply with Venezuelan law), the president of the company

> . . . explained that it was essential that the new refinery be placed where it can . . . produce products from Venezuelan crude at a price that will make them strongly competitive in the world markets. This, he said, is vital since the output of this and other new refineries to be built in the

[4] Land laws also interfered. *Crude Rubber, Coffee, Etc*, Hearings before the House Committee on Interstate and Foreign Commerce, 69 Cong. 1 sess., pp. 239, 243-45, 350.

[5] The company was already operating a 35,000 acre holding in Mexico, where operations were interrupted by the unsettled political situation. The same, p. 254.

[6] The same, p. 253.

country will greatly exceed Venezuela's own needs, and the success of the refinery will depend, for the most part, on the demand for its products in foreign markets.

According to company officials, selection of the site "followed nearly 2 years of detailed study by civil engineers, doctors, refinery engineers, topographical crews, marine engineers, and petroleum economists. . . ."[7]

The size of the market to be served—which for many commodities determines whether large-scale production methods can be employed—may depend on tariff legislation. The preferential tariff treatment that Britain gives to the dominions has attracted American branch plants to Canada, considerably widening the market for goods produced there. The "import excise" tax that the United States collects on all copper and oil imports, handicaps the foreign production of these minerals by American companies. Although the law provides for payment of drawbacks on re-exports, the practical effect of the law has been to prevent American companies from shipping their foreign output to their refineries in the United States and has increased the advantages to be gained from building refinery facilities abroad.

Production costs may be reduced by laws that offer new enterprises exemption from import taxes on machinery and supplies and various other attractions such as free building sites or free water or lights. Attention should be given to these offers and to the treatment that the government in question has accorded foreign investors in the past.

An example of the penalty that may be incurred by failure to take full account of the problems of cost and market is furnished by the brief history of the Harriman manganese concession. This concession at Tchiaturi in the U.S.S.R. was granted to the Harriman firm on June 12, 1925 and was relinquished during the summer of 1928. A summary of the causes of the failure was published in the *Manchester Guardian Commercial* (January 10, 1928)

[7] *American Petroleum Interests in Foreign Countries*, Hearings before a Senate Special Committee Investigating Petroleum Resources, 79 Cong. 1 sess., pp. 394-95.

and quoted in the annual publication of the United States Bureau of Mines, as follows:[8]

While the recent dissolution by mutual agreement of the Harriman manganese concession (supposed to run for 20 years from the date of signature in 1925) was not accompanied by any definite accusations of bad faith from either side, the explanations for the failure of the concessionaire and by the Soviet Economic authorities naturally show a certain degree of variation. Representatives of the Harriman firm at various times have offered the following reasons for the failure of the concession to work satisfactorily:

1. After obtaining what was regarded in anticipation as practically a monopoly contract for the production and export of Russian manganese, the Harriman firm found itself handicapped by the very rapid development of the hitherto neglected manganese field in the vicinity of Nikopol, in southern Ukraine. With the technical cooperation of the German firm of Rawack & Grünfeld, the exports from Nikopol began to develop so rapidly that they competed with the Tchiaturi manganese on the European markets.

2. The Harriman firm was handicapped in its competition with Nikopol and other manganese exports because it was subject to a levy of $3 a ton for manganese and for higher sums for other minerals.

3. The demands of the local trade unions for housing and other social welfare expenditures were excessive, and the local courts showed little disposition to protect a foreign concessionaire against demands of Russian (or Georgian) trade unions. Special complaint was made in regard to a case in which the dockers of Poti, the port of shipment of the Tchiaturi manganese, according to the Harriman version of the story, refused to abide by the terms of a collective agreement which their union had concluded.

4. A decree passed by the Soviet Government last March prohibiting the importation of roubles into the country greatly raised the working costs of the concession by making it impossible to continue the practice of buying roubles in near Eastern countries at rates considerably below the official one.

From this statement it appears that the preliminary survey made by the Harriman firm had not been sufficiently thorough and realistic. Apparently it had anticipated having practically a monop-

[8] *Mineral Resources of the United States, 1928* (1931), Pt. 1, pp. 246-47. See also, the same, *1925*, pp. 163-65 and *1927*, p. 196.

oly position in the Russian export market, and therefore a commanding position in the world market for manganese. But it also appears that the agreement covering the concession did not promise that the neglected Nikopol field would remain undeveloped. Legally, therefore, the Soviet was free to develop this competitive ore body.

The attitude of the Russian courts toward labor demands that increased production costs was discouraging for the concessionaire, but seems to have been consistent with the earlier position of the Soviet government toward foreign capital, and probably should not have been altogether unexpected. Finally, the prohibition against further imports of rubles bought below the official rate undoubtedly increased production costs, but it was one not directed toward any particular concession and was one well within the legal rights of the Soviet government. A more careful study of the possible difficulties ahead probably would have prevented the launching of this mining enterprise.

The laws governing foreign investments should be studied and local attitudes considered.

The laws, general and special, under which an enterprise is incorporated are of great importance to its success. The character of the laws that affect the migration of business enterprise across national boundaries has been considered in Chapters VI and VII. In the main, such laws have as their primary purpose the protection and advancement of national well-being in the receiving country, but in pursuit of this objective they may offer attractions or obstacles to the entry of foreign-controlled capital.

Many countries require foreign business enterprises that operate within their borders to incorporate locally, thereby making their operations subject to local law and local courts. For example, the Mexican subsidiaries of American oil companies that were operating in Mexico prior to expropriation were incorporated under Mexican law, and the decision of the Supreme Court of Mexico regarding expropriation was accepted as final.

Some governments, particularly in Latin America, have written into their constitutions, statutes, and concession contracts the require-

ment that concessionaires will agree not to call on their own governments to intervene diplomatically in case disputes arise over the interpretation and observance of the terms of the concession contract. For violation of this agreement the penalty imposed is forfeiture of the concession.

Legal provisions of this kind are called Calvo clauses, taking the name from the great Argentine jurist, Carlos Calvo, who advanced the doctrine that no nation ought to intervene diplomatically or otherwise against another to enforce the private claims of its citizens. The declared purpose of these laws is to protect the sovereignty and independence of the states whose doors are open to foreign concessionaires.

The United States as a rule has not interfered with the rights of foreign governments to decide what concession terms they will grant to American concession seekers and will not demand that privileges denied in the concession contract shall later be granted. Also it has been the policy of the United States to refuse to interfere in ordinary cases where difficulties arise between a foreign government and an American investor. The exception is the case where a foreign state has "grossly violated" the rights of the investor. In that event the United States—also Great Britain and Germany prior to World War I—has held that "the individual alien cannot contract away the right of his government to intervene in his behalf."[9] That is to say, the governments of these countries have not considered themselves bound by the terms of the Calvo clause if intervention appears to be necessary for preventing denial of justice to their nationals abroad.

It is often suggested that companies operating in foreign countries can assure themselves against discrimination by encouraging residents of the country concerned to participate in the ownership and control of their enterprise. "Mixed" companies, in which there is a real community of interest between foreign and domestic capital, are likely to get a more friendly reception than companies

[9] Charles P. Howland, *Survey of American Foreign Relations* (1931), p. 287; Edwin M. Borchard, *The Diplomatic Protection of Citizens Abroad* (1927), pp. 792-816; Benjamin H. Williams, *Economic Foreign Policy of the United States* (1929), pp. 104-08.

entirely under foreign control. In Europe Standard of New Jersey took account of this fact by buying into older capitalistic enterprises in a number of countries and letting the former owners keep an equity in the business. The International Telephone and Telegraph Co., which operates in many parts of the world, has consistently endeavored to minimize its risks by selling its securities in the foreign countries where it operates.

However, such sharing of control does not always appear to be desirable. A parent company that has made a large investment in developing its technical and scientific processes may not wish to invite foreign participation in financing a subsidiary that requires only a relatively small capital outlay for plant and equipment. In South America Standard of New Jersey has not been able to follow the policy adopted for Europe. There have been no existing domestic oil companies available for purchase, and Standard does not believe it practical to turn over a share of management and control to the governments of South American countries or to South American capital. In lieu of this it has sent some of the nationals of those countries to the United States to educate them for responsible positions in the company.[10]

Employment of local residents for as many important positions as possible is another way in which foreign enterprises establish a community of interest with the local population. In the countries of Latin America, the Middle East, and the Netherlands East Indies, American oil companies have trained nationals to take skilled positions in shops, field, and offices. They report that in Peru, Colombia, and Venezuela, virtually all well drillers, shop men, pump station operators, and similar positions were held by citizens of those countries who have been educated and trained by the companies. In 1944 American oil companies had a total of 67,000 employed in all foreign producing countries, exclusive of Europe, of which 63,000 were foreign nationals. Of the latter about 11,000 were employed in supervisory and technical capacities. This number included 992 geologists, engineers, doctors, and other scientific and technical employees.[11]

[10] *Fortune*, June 1940, p. 107.

[11] *American Petroleum Interests in Foreign Countries*, Hearings, pp. 257, 271.

Socony-Vacuum employed a unique method of enlisting the co-operation and good will of the people of the Orient. This has been described in *Fortune* as follows:[12]

> The cornerstone of Socony's house [in India, China, Japan, and Korea] is its "contract system." Socony does not sell kerosene wholesale; it sells it direct to the ultimate native consumer. Now it is out of the question for the company to hire platoons of young Americans and send them through the length and breadth of India selling cupfuls of kerosene to native housewives. Some native storekeeper in each village must act as Socony agent on a commission basis. But India's back country is as complex as it is vast, natives are shrewd bargainers, and there is no Bradstreet to rate their financial standing. How to guard against loss from unscrupulous agents? Socony protects itself by a system which no other company has been able to use, To become an agent, a native must deposit with the company cash or collateral to the value of the oil he receives. So successful is this that Socony's losses from bad debts are considerably less in the Orient than they are in New England. . . . Travelers report that Socony seems to have more power in China than the government itself.

Lack of courtesy toward the nationals of a foreign country increases the resentment that may arise against a company that is "making big profits" from exploiting the natural resources of the country, while courteous treatment begets good will. The following story will illustrate:

> Plying back and forth on China's long Yangtze-kiang are many river steamers, some run by Chinese, most by the foreign devils. As they plough their way up river against the rushing stream, these steamers constantly meet frail sampans loaded to the gunwales with silk from the back country. Unless the steamer slows down, her backwash gives the sampan a good rocking, sometimes capsizes it. But slowing down is a lot of trouble for the captain and engineer, so they pay no attention to the sampans beyond a few curses if one gets in their way. This may have something to do with the bullet holes that pepper the superstructures of these Yangtze-kiang steamers. Or it may be merely the bandits. Now Socony runs a shallow-draft steamer up the Yangtze-kiang, 500 miles up river, with a load of kerosene for Chinese lamps and perhaps a little gasoline for a stray European motor car. . . . Her skipper is a jovial Italian from Brooklyn, and he makes a point of slowing down whenever he meets a sampan. His boat has never been fired on in all its trips up the river.[13]

[12] *Fortune,* March 1931, p. 43.

[13] The same, p. 134.

What responsibility does a foreign enterprise owe to the receiving country?

A business concern that crosses international boundaries to start operations in a foreign country incurs many responsibilities to the government and people of the receiving country. Some of these are set forth in the laws of the country, in the company's charter of incorporation, and in the concession contract if such a contract exists. Others are of a moral and ethical character, not set forth in any document, and in many cases not clearly distinguished from responsibilities that the state and local governments of the area should assume.

The payment of taxes and royalties is clearly a legal responsibility of foreign companies and provides an important source of income for many governments. Reports from 11 American oil companies representing roughly 93 per cent of the total American investment in foreign oil, showed that in the five years 1935-39 their payments of taxes and royalties to foreign governments amounted to 3.1 billion dollars.[14]

The fixing of wage scales is a task that must be faced by any organization and, in case a very large labor force is employed in an undeveloped country, provision must be made for furnishing housing, medical care, educational facilities, and other social services. Finding the wage rate that will prove generally satisfactory may be difficult. The usual cause for dissatisfaction is that the rate is too low and there is discrimination against native workers.[15] Even in Mexican oil, where wages were far above those in native industries, the refusal of demands for higher wages was one of the many causes leading to expropriation. However, objections are sometimes raised that foreign companies are causing economic dislocation by their *high-wage* policies. This occurred in the development of Venezuelan oil. Because the companies paid substantially higher wages than other industries, government officials complained that many people were leaving the farms to the detriment of agriculture. The company replied that they could not have satisfied their conscience if they had adopted the wage rates paid in some

[14] *American Petroleum Interests in Foreign Countries*, Hearings, pp 255-426.
[15] The wages and welfare problems of companies operating in Africa are considered by Lord Hailey, *An African Survey* (1938), pp. 672-92, 1180, 1369.

farming communities and fishing industries from which they recruited labor.[16]

To house their workers, the big companies producing foreign oil, sugar, rubber, copper, and various other raw materials, have built up what are practically self-sufficient communities. They have also built the transportation (railroads and highways) and communication facilities that connect them with the outside world.[17] Two American-owned oil companies reported that their capital expenditures of this kind had totaled 36.6 million dollars in Venezuela alone, while their operation costs for these facilities amounted to more than 10 million dollars in the single year 1944.

The problem of sharing with the civil authorities the responsibilities for maintaining law and order is likely to arise in these self-contained communities. The usual solution is that government officials take charge of administering the law inside these company towns as well as outside. The American companies assume police authority temporarily if they "see things are getting out of hand."

Many industries find that by promoting the economic, social, and cultural welfare of a country they also improve their own position. One oil executive commented as follows[18]:

> . . . the cost of living in Venezuela is very high, and it has been brought about, we think, largely because of the fact that they don't have satisfactory transportation to market the products that can be grown in the country.
>
> So we think a good transportation system all over the country would in turn lower the cost of living and would save the company a substantial amount of money in that respect.
>
> . . . We are required by law to build a certain number of hospitals. Even if we weren't we would proceed with the program which we are following.
>
> . . . We know from the statistics compiled that a man today can do considerably more work than he could formerly, and we think that is largely due to the fact that we have helped to take care of him physically.

[16] *American Petroleum Interests in Foreign Countries*, Hearings, p. 60.

[17] An interesting story of the way this kind of responsibility was handled by the Tata industries of India, under the management of an American engineer, is told by John L. Keenan, *A Steel Man in India* (1943).

[18] *American Petroleum Interests in Foreign Countries*, Hearings, p. 272

The very importance of the contribution that foreign companies make to the financial, employment, and other resources of the receiving country is a cause for concern. This is of particular importance if the foreign company is engaged in an industry based on the exploitation of a wasting asset. What will happen to the country if and when its natural resources are exhausted or if world demand is considerably decreased by the competition of some new substitute? This is a responsibility that a foreign company is not likely to accept—although in Chile, American and British capital continues to share responsibility for rehabilitating the nitrate industry. In general, however, the problem is one that must be faced by the foreign government concerned. By husbanding its receipts of taxes and royalties and using them in the development of new industries appropriate to its resources, it can prepare for the changing conditions ahead.

Large enterprises operating abroad are the unofficial representatives of their own government.

To assure themselves of the support and protection of their own government in case of need, American companies operating in foreign countries must inform themselves regarding the political and commercial policies of their own government. To make sure that they will be in a position to request diplomatic protection if necessary, they also must endeavor to keep the Department of State advised concerning their activities and programs. In this way they become in a sense the unofficial representatives of their own government.

The responsibility of the American company abroad extends also to the men and women it sends to foreign countries. These men and women, from the top executive to the lowliest employee in the foreign field, are likely to be accepted as representing the typical American attitude and point of view toward foreign governments and their nationals. The story of the Brooklyn skipper on the Yangtze River (p. 183 above) is an example of a successful diplomat in an unofficial capacity.

PART III

THE UNITED STATES GOVERNMENT IN RELATION TO FOREIGN INVESTMENTS

The third and last division of the study reviews recent activities and policies of the United States government having a bearing on the problem of American foreign investments. In general the discussion shows that the policies of the government long have favored the foreign investment of private American capital, although there have been occasions when particular investment proposals were frowned upon. More recently the government's own activities as a lender have had a dual effect on the investment abroad of private capital.

The intergovernmental loans and grants extended by the United States during and since World War II tend to discourage as well as to promote private investment. The financial aid thus extended (to speed the end of the war and the resumption of normal conditions) amounts to a tremendous total, considerably larger in fact than the 1938 total of the international loans and investments of all countries, exclusive of the intergovernmental loans resulting from World War I. By aiding world recovery, the continuing flow of funds promotes conditions that normally would encourage a resumption of private investment operations. At the same time, however, it interferes with the resumption of private investment—partly because the sums advanced by the government are much larger than could be supplied by private investors, but also because of the easy and flexible terms on which government grants are made.

Since the war the government has given special attention to the problem of encouraging private capital to go abroad. It has participated in the World Bank, and in international conferences whose purpose was to write agreements aimed at breaking down barriers to world trade and investment. More recently the government included in the Economic Co-operation Act a provision guaranteeing the transfer of earnings on approved investment projects and transfer of sums received in repayment for such projects.

CHAPTER IX

THE UNITED STATES GOVERNMENT AS FOREIGN LENDER

Following the outbreak of World War II the government of the United States necessarily assumed a dominant role in the international trade and financial transactions of the country. It was imperative that all-out aid should be furnished the allies, and the question of dollar costs was relatively unimportant so long as a maximum contribution to the war effort was achieved. The flow of goods abroad was impressive, and without question was a significant factor in the winning of the war. Since VJ-day, aid to foreign countries has continued—in the form of loans and also grants-in-aid. The present chapter will indicate the extent of the war and postwar aid thus supplied by the United States to foreign governments, the efforts made to co-ordinate the government agencies concerned with the problem of intergovernmental war loans, and will take stock of current plans for continued governmental loans and grants to countries in need of aid for reconstruction and development purposes.

I. "LENDING" AGENCIES AND COMMITMENTS

Acting through many agencies, the government furnished allied and friendly nations with supplies and services directly or indirectly required for the prosecution of the war. By far the greater part of such goods was furnished under the easy terms of lend-lease agreements, but the government facilitated the flow of goods in various other ways: by extending credits through numerous government agencies, by financing foreign development projects, and by building military and nonmilitary installations abroad.[1] VJ-day brought a virtual cessation of "straight" lend-lease. However, the

[1] These installations included harbors, highways, and other transportation facilities, storage depots, camps and barracks, hospitals, agricultural and mining developments, and various other projects.

government continues to provide other types of contributions and loans to assist in the relief, reconstruction, and development of foreign countries.

Under lend-lease and surplus disposal agreements, billions of dollars of supplies have gone to the allies.

In March 1941 the Lend-Lease Act became law, with an initial budget of 7 billion dollars for aid to foreign governments. When its operations under the original terms were brought to an end in accordance with the President's declaration of August 21, 1945, such aid supplied and accounted for was reported at the tremendous total of about 48.6 billion dollars. Additional aid rendered through lend-lease channels since VJ-day (and a downward revision of the earlier report) has raised the total to 50.2 billions.[2]

By far the greater part of this huge amount has been canceled by the settlement agreements arranged with the various recipient governments, with no payment in cash or kind required. However, there have been offsetting receipts of reverse lend-lease aid, some payments in cash, and some agreements to pay in the future for lend-lease aid furnished since VJ-day and for VJ-day inventories in the hands of civilian agencies of foreign governments. In all, the various types of repayment to the United States total about 11.4 billion dollars, as follows: reverse lend-lease, 7.8 billion dollars; cash payments by foreign governments for articles received under lend-lease, 1.5 billions; agreements covering payments to be made in the future, 1.4 billions; and transfers to United States agencies of goods originally procured with lend-lease funds, 726 million dollars.[3]

Closely akin to postwar lend-lease is the sale (by the Foreign Liquidation Commissioner) of United States government property

[2] *Twenty-Third Report to Congress on Lend-Lease Operations for the Period Ended September 30, 1946*, p. 27; *Twenty-Fifth Report . . . for the Period Ended June 30, 1947*, p. 8. VJ-day was Sept. 2, 1945.

[3] The same, pp. 8, 66, 76; U S. Department of Commerce Clearing Office for Foreign Transactions, *Foreign Credits*, Dec. 31, 1947 (Apr. 1, 1948), p. 5. The figures given here are as of June 30, 1947. They are subject to change since some of the recipients of lend-lease have not yet arranged agreements covering their accounts.

located in foreign countries. In fact responsibility for both types of transactions has been delegated to the same office. Down to December 31, 1946 dollar-credit agreements arranged by this office, or authorized and in process of negotiation, with foreign governments for purchase of United States surplus property, amounted to 1.7 billion dollars, covering goods valued at 7.4 billion dollars. Sales by the Army and Navy raise the amount realized from the disposal abroad of American surplus property to 1.8 billion dollars (with an original value of 7.6 billions). Additional supplies valued at 1.4 billion dollars have been declared surplus and remain to be sold. At the end of December 1947, credits extended by the United States government for financing surplus property sales abroad stood at 988 million dollars, and commitments under intergovernmental agreements called for additional credits of 260 million dollars when delivery of goods is completed.[4]

The U. S. Maritime Commission was made the agency for ship disposal by the Surplus Property Act of 1944. On December 31, 1947 credits granted foreign governments in connection with the sale of ships amounted to 207 million dollars (including 164 millions on which deliveries had been made and 43 millions to be delivered in the future).[5]

The RFC has aided in financing foreign governments during and since the war.

Early in the third quarter of 1941 the Reconstruction Finance Corporation, acting under a recent amendment,[6] agreed to loan up to 425 million dollars to the British government against the deposit of British-owned American securities and investments. The loan was to run 15 years at 3 per cent. Only 390 million dollars of this loan were used by Britain and by December 31, 1947

[4] Department of State, Office of Foreign Liquidation Commissioner, *Report to Congress*, January 1947, pp. 8, 10; U.S. Department of Commerce, Clearing Office for Foreign Transactions, *Foreign Credits, Dec. 31, 1947*, p. 5.

[5] The same.

[6] Sec. 4, 55 Stat. 248, 249 (approved June 10, 1941) amending sec. 5d of the Reconstruction Finance Corporation Act. As amended, the law permits loans to foreign governments provided American securities are deposited as collateral,

repayments had reduced the amount outstanding to 178 million dollars.

On August 7, 1946 Congress authorized the RFC to lend 75 million dollars to the Philippines, the loan to bear interest at 2 per cent and to mature January 1, 1952.[7] By the end of 1947 loans made under this authorization amounted to 70 million dollars, of which 10 millions had been repaid. A 5 million dollar loan to Canada was also authorized and outstanding on the books of the corporation at the end of 1947.

Foreign loans to a total of 22.2 million dollars were also extended by the Office of Defense Supplies and the United States Commercial Company (agencies that were transferred to the RFC in 1945) of which 3 millions were still outstanding on December 31, 1947.

Cash advances against future delivery of commodities have provided foreign countries with dollars.

The United States government has made cash advances to foreign governments, through the agency of RFC corporations and the Department of Agriculture against commodities that were bought abroad. In the aggregate such advances amounted to some 1,006 million dollars. At the end of 1947, some 37 millions were still outstanding. That is, 37 million dollars had been paid in advance for foreign goods not yet received in the United States. Purchases of another 13 millions of goods had been arranged, but advance payments to foreign exporters had not yet been made.[8]

Congress authorized a sizable Treasury loan to China in 1942.

By a joint resolution of the Senate and House, financial aid amounting to 500 million dollars was made available to China early

[7] *New York Times*, Mar. 7, 1947.

[8] U. S. Department of Commerce, Clearing Office for Foreign Transactions, *Foreign Credits*, Dec. 31, 1947. These transactions covered only a relatively small part of the government's foreign procurement program. The RFC agencies involved were the Office of Defense Supplies, Office of Metals Reserve, Rubber Development Corporation, U. S. Commercial Company. They also include some commitment made by the Departments of State and Treasury.

in 1942, and funds in the Treasury of the United States were appropriated for this purpose. Terms of settlement were left for consideration after the war. This credit was fully used by the end of 1945.[9]

Foreign lending by the Export-Import Bank bulked large in the first postwar year.

This lending agency of the government was created early in 1934, to "aid in financing and to facilitate" the foreign trade of the United States. This purpose was similar to that pursued in various ways by many foreign countries—Sweden, Germany, France, England, Belgium, Poland, and Japan—where governments were extending credits and state guaranties in one form or another to aid in maintaining and increasing their foreign trade.[10]

As the work of the Bank has expanded, the limit set on the loans and obligations it might have owing to it at any one time has been raised. In 1940 this limit was increased from 200 million dollars to 700 millions, and the scope of the Bank's operations was broadened to include assistance "in the development of the resources, the stabilization of the economies and the orderly marketing of the products of the countries of the Western Hemisphere."[11] Again in 1945 the Bank's area of operations was enlarged: (1) The limit on its outstanding loans and guaranties was raised from 700 million dollars to 3.5 billions. (2) The prohibition against loans to governments in default on war debts was removed as regards loans by the Bank and also participation of private persons in such Bank loans.[12] In March 1946 President Truman endorsed a recommendation that the limit should again be raised—this time to 4.75 billion dollars, but Congress took no action on the question.[13]

[9] 56 Stat. 82, 89 The loan was authorized on Feb. 7, 1942, and funds were appropriated five days later. *Annual Report of the Secretary of the Treasury, June 30, 1946*, p. 430

[10] Export-Import Bank of Washington, *Annual Report, 1936*, p. 7; *1937*, p. 4.

[11] The same, *1943*, p 1.

[12] Export-Import Bank of Washington, *First Semiannual Report to Congress*, July-December 1945, p. 9.

[13] The same, p. 14.

At the end of 1947 the outstanding loans of the Bank totaled 1,971 million dollars, commitments, 1,032 millions; or a total of 3,003 millions. The uncommitted portion of the Bank's 3.5 billions of lending authority was therefore 497 million dollars.[14]

A "special" loan was arranged for Britain in 1946.

Under an agreement arranged between the two governments, the United States has extended to the United Kingdom a line of credit of 3.75 billion dollars which can be drawn upon until December 31, 1951. This agreement came into force when signed by the President of the United States on July 15, 1946, having previously been passed by the British Parliament and the Congress. The terms of the loan call for repayment in 50 annual installments beginning 1951. The amount to be paid each year will be 120 million dollars—including payment on principal and interest at 2 per cent.[15] At the end of 1947 Britain had used 3,450 million dollars of this credit, so that future commitments of the United States under this agreement stood at only 300 million dollars.

Early in 1946 Congress authorized a grant-in-aid to the Philippines.

Under the Philippine Rehabilitation Act passed April 30, 1946, Congress approved a grant to the islands in excess of 620 million dollars (for which they will not be required to make payment). This total is made up of the following items: 400 million dollars for payment of war damage compensation; 100 million dollars to be transferred in the form of surplus property; 120 million dollars for the reconstruction of public roads, port and harbor facilities, public property, and essential public services.[16] By the end of

[14] Export-Import Bank of Washington, *Fifth Semiannual Report to Congress*, July-December 1947, pp. 2, 36. Included in the total is the 328-million-dollar participation of private "agent banks"—loans for which the Bank has a contingent liability, and which therefore apply against the statutory limit of the Bank's loans and credits

[15] This loan—and also the loan arranged in connection with the lend-lease settlement—provides for a waiver of interest-payment in adverse years.

[16] 60 Stat. 128.

1946, the sums turned over to the Philippine government under the act amounted to 89 million dollars, increased to 209 millions by the end of 1947.[17]

Through UNRRA and the War and Navy Departments, the government participated in foreign relief work.

The United Nations Relief and Rehabilitation Administration was organized in November 1943 as an emergency organization whose purpose was to save the lives of war victims and to help these people become once more useful working members of society. From March 28, 1944, when the President signed the joint resolution of Congress authorizing appropriation of funds for this organization, to early 1946, when the final sum of 465 million dollars was appropriated, the United States government had contributed 2.7 billion dollars for UNRRA's operating and administrative costs. Contributions of the other 47 member governments brought the total furnished by all governments to 3.7 billion dollars.[18] These sums were of course furnished as gifts—not loans. By the end of July 1946 the great bulk of the funds thus made available had been committed to procurement agencies for the purchase of supplies. Actual shipments (and payment by UNRRA) necessarily lagged behind commitments and have continued during the fiscal year 1947.[19]

Relief supplies furnished to liberated and occupied areas by the War and Navy Departments from July 1, 1945 to the end of 1947 are estimated at about 1.8 billion dollars. These are in addition to supplies furnished through UNRRA. From January

[17] Office of Foreign Liquidation Commissioner, *Report on Foreign Disposal, January 1947*, pp. 27-29; U.S. Philippine War Damage Commission, *First Semi-annual Report for Period Ending December 31, 1946*, p. 8; State Department Press Release, Dec. 12, 1946. *Survey of Current Business*, March 1948, p. 22. The 50 millions of surplus property disposal accounted for here are not included in the sales of surplus property considered on p 191 above.

[18] United Nations Relief and Rehabilitation Administration, *Report of the Director General to the Council for the Period 1 April 1946 to 30 June 1946*, p. 97. Contributions from nongovernment sources added 6.4 million dollars to UNRRA's resources. Of this amount, 94.5 per cent came from the United States.

[19] Actual shipments to the end of June 1946 accounted for only 1.7 billion dollars of the 3 7 billions paid or made available to UNRRA. The same, p. 43.

1, 1940 to the end of 1947 the total amounted to roughly 2.8 billion dollars.[20]

The United States is a member of the Bretton Woods Monetary and Financial Institutions.

In July 1944 delegates from 44 countries met at Bretton Woods (New Hampshire) to work out plans for dealing with the world's monetary and financial problems. Proposals were formulated for the establishment of two institutions: (1) a stabilization fund for establishing a stable and orderly system of international currency relations; and (2) an international bank for postwar reconstruction to provide loan capital for economic reconstruction and development. Some of the countries represented at the Bretton Woods Conference have not yet become members of the Bank and Fund, while the present membership includes some countries not represented at the Conference.

For financing the operations of the Fund, each member was assigned a quota—on which payment became due in most cases by the end of 1946 or early 1947. As the membership of the Fund stood in September 1946, the aggregate amount of the quotas agreed on was 7,524 million dollars.[21] Of this amount, 2,750 million dollars, or roughly 37 per cent, represent the quota of the United States.

The Bank will be financed by the issue of capital stock available for subscription by members only. Its authorized capital stock is 10 billion dollars, of which 8,224.5 million dollars had been subscribed on July 1, 1947. Of the 8,224.5 million dollars subscribed, the United States accounted for 3,175 millions, or 38.6 per cent. Calls on subscriptions—in accordance with the Articles of Agreement of the Bank—have amounted to 20 per cent of subscriptions. Accordingly, the United States has now made payments to the

[20] Nathaniel Weyl, "U S. Financial Assistance in World Reconstruction," *Foreign Commerce Weekly*, Feb. 1, 1947, pp 4, 6; *Survey of Current Business*, March 1948, p 22, table 7; and other official data.

[21] Quotas had not been agreed upon for the 4 countries seeking membership, nor for 1 country (Iran) that was requesting an increase in its quota. Department of State, *Bulletin*, Oct. 20, 1946, p. 706.

Bank totaling 635 million dollars. The remaining 2,540 millions of the United States government subscription is subject to call if defaults "on loans made, participated in, or guaranteed by the Bank" make such calls necessary.

In July 1947 Congress appropriated funds for furnishing aid to a number of areas.

On March 12 President Truman, at a joint session of Congress, asked that 400 million dollars be appropriated for Greece and Turkey. He also called attention to a request he had made a few weeks earlier for a grant of 350 million dollars for relief in Europe, and noted its bearing on relations with Russia. Accordingly, a bill authorizing aid to Greece and Turkey became law in May 1947. However, it was not until the following July that Congress appropriated the necessary funds for these various relief projects.

The total amount appropriated was $1,403,024,900, itemized as follows:

Aid to Greece	$300,000,000
Aid to Turkey	100,000,000
Grant for "direct relief"	332,000,000
Grant for government and relief in Germany, Japan, and Korea	600,000,000
Participation in the International Refugee Organization	71,024,900

Originally the grant for direct relief had been put at 350 million dollars and our share in the International Refugee Organization at 75 millions. These figures were pared down because countries in the Russian zone were definitely excluded from obtaining a share of these funds. Of the total amount appropriated, some 876 million dollars had been paid out by the end of 1947, leaving 527 millions of grants-in-aid to be paid out in the future.

In summary, the paragraphs given above show briefly the extent and purpose of the foreign contributions, loans, and financial commitments of the United States government for the prosecution of the war and the restoration of peace. They are summarized in the table on page 199, with the accounts brought down to the end of 1947. While the reports of some agencies are still incomplete, the greater part of the amounts involved are accounted for.

It will be seen from the table that by December 31, 1947, the United States government had made foreign loans and investments of various kinds to a total of 11.6 billion dollars. Commitments for the future in connection with membership in the World Bank, a Treasury loan to Britain, and the unused portions of other loans and credits amounted in all to 4.3 billion dollars. Contributions freely furnished foreign governments (with no

AID TO FOREIGN GOVERNMENTS FROM THE UNITED STATES GOVERNMENT
Loans, Other Investments, and Grants, January 1941–December 31, 1947
(Figures are given in millions)

Agency	Loans, Credits, and Other Investments		Contributions and Grants (Repayment not required)	
	Amount Outstanding	Commitments for the Future	Amount Distributed	Commitments for the Future
Lend-Lease—war and postwar	$ 1,324	$ 95	$38,800[a]	$ —
Property sales:				
Surplus property	988	260	—	—
Merchant ships	164	43	—	—
RFC loans:				
United Kingdom	178	35	—	—
Canada	5	—	—	—
Philippines	60	—	—	—
RFC subsidiary agencies, loans	3	—	—	—
Cash advances of procurement agencies	37	13	—	—
Financial aid to China	—	—	500	—
Export-Import Bank loans	1,971	1,032	—	—
Treasury loan to Britain	3,450	300	—	—
Philippine rehabilitation	—	—	209	411
UNRRA	—	—	2,700	—
Civilian supplies distributed by Army and Navy	—	—	2,800	—
Bretton Woods Institutions:				
Fund	2,750	—	—	—
Bank	635	2,540	—	—
Congressional appropriation of July 1947[b]	—	—	876	527
Interim aid bill passed December 19, 1947[c]	—	—	—	597
Total	$11,565	$4,318	$45,885	$1,535

[a] In excess of offsetting payments and reverse lend-lease received by the United States.

[b] Some of the funds provided by this appropriation are also included in "Civilian Supplies Distributed by Army and Navy."

[c] See p. 215 below.

repayment required) amounted to 45.9 billion dollars. In addition relief commitments for the future amounted to 1.5 billion dollars.

The grand total of funds and goods already furnished to foreigners to aid in the prosecution of the war and the restoration of peace from January 1941 to the end of 1947, together with the commitments then outstanding, amounted to 63.3 billion dollars. In 1948 more than 6 billions were appropriated for the first year of the Marshall Plan (considered on pages 212-18 below), and 1.3 billions for occupied areas. This will increase the total to well over 70 billion dollars. If wartime lend-lease is deducted from this total the remainder still stands at a large figure—roughly 31 billion dollars.

In addition to the various loans and gifts furnished by the government, private individuals, charitable organizations, churches, and relief groups transmitted money, foodstuffs, clothing, and other items to foreign countries. In the single year 1946 the over-all total of such gifts was 722 million dollars, and 859 millions in 1947, or 1,581 million dollars in two postwar years.[22]

II. THE CO-ORDINATION OF GOVERNMENT LENDING

In the earlier years of the war, when victory still lay far ahead in the future, little or no attempt was made to co-ordinate the work of the many government agencies that shared responsibility for extending financial assistance to foreign governments. In fact such co-ordination might even be lacking with regard to the various parts of a single foreign-assistance program. The administration of lend-lease is an example. But as the end of the war came in view and since VJ-day, efforts have been made to adjust and harmonize the programs and functioning of the various lending agencies of the government.

Many unrelated agencies participated in lend-lease spending.

Under the Lend-Lease Act direct responsibility for its administration was given to the President. However, the act specified that the President might authorize the procurement and transfer of de-

[22] *Foreign Commerce Weekly,* Mar. 20, 1948, p. 3.

fense articles or defense information by the Secretary of War, the Secretary of the Navy, or the head of any other department or agency of the government. Master agreements with nations receiving lend-lease aid were negotiated by the State Department, with the advice of the Economic Defense Board and the Office of Lend-Lease Administration. Other functions of the President under the act were delegated by him to the lend-lease administrator.

Thus many agencies were participating in the actual expenditure of lend-lease funds which, under pressure of the urgent emergency of war, were lavishly appropriated by Congress. Except for the requirement that the President keep Congress informed concerning operations under the act, no specific provision was made for planning and co-ordinating the work of these various agencies.

The Export-Import Bank was not equipped to supervise the government's foreign loans and contributions.

The Export-Import Bank was established in 1934, and early in its history purchased from the RFC and the Farm Credit Administration promissory notes payable by China. It also took over for collection certain judgments that the Department of Interior held against the Cuban government. For a time, therefore, it provided a means of consolidating the foreign obligations held by other government agencies.

Once we were in the war, however, the Bank could not continue to perform this function. It was not designed or equipped to deal with the problems arising from the tremendous expansion of foreign financing that ensued. Integration of its policies with those of other agencies was provided for in 1936 and by the election of a board of trustees and the appointment of an advisory committee. These two bodies included representatives of six government departments and agencies concerned with international policies and finance. In 1945 the management of the Bank was vested in a board of directors consisting of the Secretary of State *ex officio* and four full-time members (including the chairman) appointed by the President of the United States with the advice and consent of the Senate. Provision was also made for an Advisory Board consisting of the chairman of the Board of Directors of the Bank as chairman, the

Secretaries of State, Treasury, and Commerce and the chairman of the Board of Governors of the Federal Reserve System.[23] But the Bank has not been in a position to handle or to supervise all of the loans and contributions the government was furnishing to other countries. In fact even the policies of the Bank itself were dominated by decisions of the National Advisory Council.[24]

The National Advisory Council was organized to co-ordinate the country's foreign loan activities.

Specific provision was made in the Bretton Woods Agreements Act for co-ordination of the "policies and operations" of United States representatives on the International Monetary Fund and Bank and of other government agencies to the extent that they make or participate in "foreign loans or engage in foreign financial, exchange, or monetary transactions." By this act Congress established the National Advisory Council on International Monetary and Finance Problems.[25]

To make co-ordination possible, the act requires that the various agencies "shall keep the Council fully informed of their activities and shall provide it with such further information or data in their possession as the Council may deem necessary. . . ." The Council, in turn, is required to report to Congress "not less frequently than every six months" concerning participation of the United States in the Fund and Bank.[26]

A committee of American businessmen was appointed to aid in returning foreign lending to private channels.

Late in June 1946 the President appointed a Committee for

[23] In 1936 the 11 members of the Board of trustees included representatives of the RFC, the Export-Import Bank, and the Departments of Commerce, State, and Treasury. Export-Import Bank of Washington, *Annual Report, 1936*, p. 10. See also *First Semiannual Report*, July-December 1945, p. 9.

[24] The National Advisory Council has the same composition as the Advisory Board of the Bank, except that the Secretary of the Treasury acts as chairman of the Council. *First Semiannual Report*, July-December 1945, p. 9, and in 1948 the Administrator of the Economic Co-operation Administration was added to the Council (see p 216 below).

[25] 59 Stat. 512 (approved July 31, 1945).

[26] In its first report to Congress, early in March 1946, the Council summarized its plan of procedure. *Report of the National Advisory Council on International Monetary and Finance Problems*, H. Doc. 497, 79 Cong. 2 sess., pp. 7-8.

Financing Foreign Trade, made up of 12 leading industrialists and bankers, including the chairman, Winthrop W. Aldrich of the Chase National Bank.[27] In appointing the Committee, President Truman stressed the temporary character of government lending for financing foreign trade. Accordingly, he advised the Committee to work closely with the National Advisory Council with a view to returning the foreign commerce and foreign investments of the United States to private channels as soon as possible. Late in September the Committee held its first formal session and made arrangements for periodic meetings in Washington with the National Advisory Council.[28]

Provision was made for consolidating information on all foreign transactions.

The Clearing Office for Foreign Transactions was organized in May 1944 to assemble and consolidate statistical and other information on the foreign transactions of United States government agencies and the status of their foreign assets and commitments.[29] This fact-collecting agency provides the information that is of basic importance to officials responsible for planning and co-ordinating the foreign lending and relief activities of the government.

III. FOREIGN LOAN POLICIES OF THE GOVERNMENT

When the United States government launched its program of assistance to countries at war with Nazi Germany, there was little in the way of precedent to help in the formulation of policies. However, it was generally agreed that the mistakes of World War I financing should be avoided, and that nothing should be allowed to conflict with the war aim of early and complete victory. Ways of meeting these objectives had to be improvised and, with the end of the war, the government has had to meet a deluge of requests for funds to be used for reconstruction and development abroad.

[27] White House press release June 26, 1946.

[28] A statement by Aldrich outlining the essentials of an international economic policy for the United States was published in *The Commercial and Financial Chronicle* July 9, 1946, p. 203 and elaborated in the same journal Oct. 17, 1946, p. 1989.

[29] This office is now a division of the Office of Business Economics of the Department of Commerce.

In World War II the government reversed the war-loan policy followed in World War I.

Until the outbreak of war in 1914, loans made by one national government to another had been confined to small-scale transactions.[30] But World War I called for immediate expenditures of vast sums, and these were made possible in many cases by large intergovernmental loans. The war and reconstruction loans made by the United States government amounted to some 10 billion dollars. The British government loaned approximately 8 billions, offset by a little more than 4 billions borrowed from the United States and by the gold furnished as collateral by some of the borrowing governments. The French government loaned about 2.5 billion dollars, but borrowed about 5 billions from Britain and the United States.

In the view of the United States government, the loans it had made were commercial obligations on which payment of principal and interest would be required. And though the debtor governments strongly objected to this viewpoint, they eventually funded their debts into long-term obligations. When they defaulted during the depression, the government of the United States reaffirmed its position by passing the Johnson Act which barred the defaulting governments from borrowing in the private financial markets of the United States.[31]

Wisdom gained through experience with the debt problem of World War I is reflected in the United States government's shift in foreign loan policy early in World War II. The American public was deeply moved by the fall of France in June 1940, and

[30] The outstanding exception was the financial aid the British government extended to its continental allies from 1793 to 1816 This was almost entirely in the form of subsidies rather than loans, and amounted to a net total of roughly 57 million pounds, or less than 300 million dollars. During the rest of the nineteenth century Britain "never subsidized an ally again." J. H. Clapham, "Loans and Subsidies in Time of War, 1793-1814," *The Economic Journal*, Vol. 27, December 1917, p. 500. It should be noted that Britain participated with other allies in the reparation payments collected from the French government after Napoleon's surrender.

[31] The act specifies that it does not apply to "public corporations created by or pursuant to special authorization of Congress or a corporation in which the government of the United States has or exercises a controlling interest through stock ownership or otherwise." 48 Stat. 574 (approved Apr. 13, 1934).

in the main reacted favorably to the exchange of American destroyers for leases to British territory to be used for military bases two and one half months later. This deal was along policy lines that foreshadowed the lend-lease bill introduced in the Senate and the House on January 10 and made law on March 11, 1941.

From the beginning it was clear to many observers that there would be little or no cash payment demanded for the wartime assistance furnished under lend-lease agreements. Throughout the war it was recognized that money spent on lend-lease was an integral part of the war effort of the United States. Lend-lease supplies kept allied factories working that otherwise would have closed, and kept allied soldiers fighting that otherwise might not have had the food and equipment to carry on. This was the view of responsible government officials, and with this view most of the country concurred.

As pointed out on page 191 above, this reversal of policy does not apply to credits extended after VJ-day for goods furnished through lend-lease channels or through the sale of surplus property. It was argued that with the war ended, such aid should be furnished on a cash or credit basis—but on very liberal terms.

According to official reports, lend-lease aid since VJ-day has consisted largely of goods built to foreign specifications on contracts let before the end of the fighting.[32] This meant that such goods would be of limited value to the United States, and argued in favor of their transfer to foreign buyers. The program of selling surplus property overseas at prices far below original cost is defended on the ground that the cost of bringing the goods to this country for sale or use would involve greater losses than the present method of selling at substantial discounts.

Practical nullification of the Johnson Act marks another shift in government loan policy.

The Johnson Act explicitly states that it does not apply to agencies and corporations in which the United States government has a controlling interest. However, legislation similar to the Johnson Act applied to government lending during interwar years.

[32] The so-called "pipe line" lend-lease also included goods in storage for and in transit to foreign countries.

Until 1941 the loans extended by the Reconstruction Finance Corporation were in the main restricted to American borrowers. In June 1941, however, the corporation was authorized to extend loans to foreign governments on the same terms as to American borrowers: that is, such loans could be made provided the borrowers deposited American securities as collateral. Shortly afterwards the corporation extended a loan to Britain under this authorization.

This change in policy was not applied to the Export-Import Bank until some years later. The principal purpose of the Export-Import Bank was and is "to facilitate the exports and imports of the United States."[33] To that end the Bank helped American exporters finance the shipment of American goods to countries all over the world, making no distinction between countries on the basis of war-debt status. Loans made to foreign governments, however, were few and were closely tied to trade.

Then in March 1940 a provision was written into the law specifically prohibiting the Bank from making a loan to ". . . any government which was in default in the payment of its obligations or any part thereof to the government of the United States on April 13, 1934. . . ."[34] It was not until 1945 that this prohibition was removed and such loans were legalized if extended by the Bank or by private "persons" participating with the Bank.[35] As revised in 1945, the Johnson Act also permits governments in default on war debts to the United States government to borrow in the private capital market of the United States provided they are members of the Bretton Woods organizations.[36] This means that while the Johnson Act still remains on the books, it now has little or no practical application.

[33] Export-Import Bank, *First Semiannual Report*, July-December 1945, p. 30.

[34] 54 Stat. 38 (approved Mar. 2, 1940). It is interesting to recall that on Apr. 13, 1934 the Johnson Act was approved.

[35] 59 Stat. 526 (approved July 31, 1945). Loans to Western Hemisphere governments were authorized in September 1940. 54 Stat. 962 (approved Sept. 26, 1940).

[36] See Chap. 7, p. 145.

An early cessation of government lending abroad was expected to follow on the heels of victory.

Most observers agreed that large grants of United States government funds would be required for the relief of suffering abroad after the cessation of hostilities. They also expected that American capital would have to be furnished for reconstruction and development purposes in many countries. But it was not expected that the government of the United States would long continue in the role of banker for the world. In fact it was expected that a large share of that responsibility would be assumed by the International Monetary Fund and the International Bank for Reconstruction and Development—institutions established according to agreements reached at Bretton Woods. It was expected that government lending would bridge the gap until the Bank could begin operating, and that thereafter private capital would welcome the opportunity of participating with the Bank in furnishing funds for foreign borrowers.

These views are reflected in the National Advisory Council's statement of the foreign loan policy of the United States government published February 21, 1946. In anticipation of the shift of responsibility from the government of the United States to the World Bank, it says: "The International Bank will be the principal agency to make foreign loans for reconstruction and development which private capital cannot furnish on reasonable terms."[37] It also warns that ". . . the proposed loan to Britain, requiring congressional authorization, is a special case, . . . and will not be a precedent for a loan to any other country."[38] However, the Council definitely foresaw need for some additional lending during the interim period before the Bank began operating. For this—presumably brief—period it recommended ". . . a foreign lending program adequate to meet the minimum needs of foreign coun-

[37] *Report of National Advisory Council,* H. Doc. 497, 79 Cong. 2 sess. sec. 2, p. 17.

[38] The same, sec. 3

tries."[39] In February 1946, with this in view, it recommended that the limit on foreign loans by the Export-Import Bank be increased—a recommendation not followed by Congress.

A report of the Export-Import Bank has indicated even more clearly that an end of government lending was in prospect:

When the . . . [International Bank] does come into effective operation, . . . it will take over the functions of making reconstruction credits which private capital cannot furnish on reasonable terms. In the meantime, in order that an undue assumption of risk by the United States alone will be avoided, credits for reconstruction purposes are being extended by the Export-Import Bank only in urgent cases and in such amounts as may be requested by the borrower for emergency purposes in the United States.[40]

The basic principles laid down to guide the lending operations of the Export-Import Bank show an intention to keep foreign lending on a business basis and to serve the purpose for which the Bank was organized—assistance to foreign trade. They also emphasized the importance of investigating the credit standing of applicants for loans, and of making certain that the loan funds furnished a borrower are actually used for the intended purpose. These principles, as set forth in the Bank's *General Policy Statement* (published in 1945) are given below. (Italics are from the report.)

1. In accordance with the statutes governing its activities, *the Bank makes only loans and guaranties which serve to promote the export-import trade of the United States.* (Page 6)

The Bank's financing of exports is of two general types. The first type consists of credits for the benefit of individual United States exporters to facilitate the sale abroad of specific materials or equipment. The second type consists of a line of credit in favor of a foreign government, a foreign bank, or a foreign firm, to be available during a stipulated period of time, for the purpose of facilitating the purchase in the United States of specific materials, equipment, and services. Although different in form, the two types of credit obviously serve a single purpose. (Page 9)

2. In accordance with its established practice and as explicitly provided in the Export-Import Bank Act of 1945, *the Bank makes loans generally only for specific purposes.* (Page 7)

The Bank does not make lump-sum advances for use as borrowers see fit. (Page 10)

[39] The same, sec. 7, p. 19.

[40] Export-Import Bank, *Second Semiannual Report to Congress*, January-June 1946, pp. 17-18.

3. As a matter of prudent management and as required by law, *the Bank makes only loans which offer reasonable assurance of repayment.* (Page 7)

Loans to domestic exporters, importers, and manufacturers are usually made on the basis of the credit standing of the borrower, supplemented by the guaranty of a foreign bank or government in case of loans made without recourse to the applicant. Credits to foreign governments and their agencies are made on the basis of the general credit of the country or agency supplemented when desirable and appropriate by a pledge of specific revenues or specific receipts of dollar exchange. (Page 16)

4. As a general rule, *the Bank extends credit only to finance purchases of materials and equipment produced or manufactured in the United States and the technical services of American firms and individuals as distinguished from outlays for materials and labor in the borrowing country or purchases in third countries.* (Page 7)

5. In accordance with its own rule and the express instruction of Congress, *the Bank does not compete with private capital but rather supplements and encourages it.* (Page 8)

Late in 1945 political considerations became important in the assistance program of the United States.

The summary statements of the loan policies of the government as published by the National Advisory Council and by the Export-Import Bank make no mention of political factors. But by the latter part of 1945 objections were heard against further aid to countries that showed an unfriendly attitude toward the United States. The case of Poland was one of the earliest.

Difficulties with Poland began in the latter part of 1945 when the Polish government was entering on a program for public ownership of all basic industries employing more than 50 persons per shift. Among these were American-owned properties valued at around 160 million dollars. While our ambassador to Poland, Mr. Arthur Bliss Lane, regarded nationalization legislation as within the rights of a sovereign power, he did protest that American citizens should have been permitted to inspect their properties in Poland before the nationalization program was put into effect. When Poland applied for a loan from the Export-Import Bank in January 1946 Mr. Lane opposed the grant.[41]

[41] *Washington Post,* Jan. 11, 1946; *Washington Evening Star,* editorial, Jan. 12, 1946.

A temporary settlement of the question apparently was reached, and on April 24 the State Department announced that credits up to 50 million dollars had been granted Poland for the purchase of surplus property on condition that the country hold a "free and unfettered" election as agreed at Yalta. At the same time the chairman of the board of the Export-Import Bank announced that a 40-million-dollar credit to Poland had been approved for the purchase in the United States of coal cars and locomotives for the Polish state railways.[42]

A week earlier Senator Vandenberg had expressed strong doubts concerning loans to Poland. He was quoted as saying that any foreign loan this country might make "should be very definitely geared to the general attitude of any foreign government toward its other moral as well as fiscal obligations." He also said ". . . all foreign loans should be considered as integral factors in our foreign policy." Senator Vandenberg's strong expression of doubt regarding loans to Poland is reported to have been instrumental in persuading the Polish government to give the desired assurance regarding the forthcoming election.[43]

The surplus property credits granted in April were frozen in May—on the charge that Poland was not living up to its election agreement. But in June, when new assurances were given regarding the elections, the United States permitted the 50-million-dollar surplus proprty credit to become active.[44] Then in September and early October the treatment of American investments in Poland again came up for discussion.[45]

In addition to the difficulties with Poland there had been trouble with Czechoslovakia over nationalization of American properties, trouble with Russia over American properties in Austria, Hungary, and Romania, and trouble with Yugoslavia. It also became known that the Czech government had sold to Romania, at a considerable

[42] The *New York Times,* Apr. 25, 1946.
[43] The same.
[44] The same, Aug 10, 1946.
[45] *Wall Street Journal,* Oct. 8, 1946.

profit, some of the surplus property purchased in the United States.

Tempers were getting short when, at the Paris Peace Conference, spokesmen for Czechoslovakia joined Russia in charging the United States with "dollar diplomacy." The unfriendly attitude of the Czech delegation brought matters to a head. The fifty-million-dollar loan granted Czechoslovakia for surplus property was canceled; negotiations for an Export-Import Bank loan to the country were suspended; and in October 1946 Secretary of State Byrnes gave notice that the United States had determined to make political considerations a factor in its lending program. In a news conference, he told reporters that in future lending by the United States the "determining factors would be (a) need, and (b) friendship."[46]

This was followed in early December by a supplementary declaration of State Department policy as it applies to relief supplies furnished free to needy countries. In a broadcast on December 8, 1946 Mr. Dean G. Acheson, acting Secretary of State, said that when UNRRA was discontinued, the United States would continue assistance to countries requiring aid. But he added that we would not "send shipments . . . to countries that are diverting [to preparations for war] their man power and facilities away from the production of the necessaries of life which they are asking others to supply."[47]

In March 1947 a new foreign policy was announced by President Truman.

In February 1947 the British government notified the United States that, because of economic and financial conditions, Britain could not continue furnishing the funds required for maintaining

[46] *Washington Evening Star*, Oct. 22, 1946; *Washington Post*, Oct. 23, 1946. New sales under the fifty-million-dollar surplus property credit had been suspended Sept 13, 1946. Department of State, Office of Foreign Liquidation Commissioner, *Report on Foreign Surplus Disposal*, January 1947, pp. 28-29

[47] *New York Times*, Dec. 9, 1946

stability in Greece. Thereupon the President called congressional leaders to the White House for a conference covering conditions in Europe.[48] He followed this by appearing before a joint session of Congress (March 12, 1947) asking that 400 million dollars of aid to Greece and Turkey be authorized to help repel "totalitarian aggression" that was threatening their national integrity. This speech contains the President's views regarding the foreign loan policy of the United States as follows:[49]

> One of the primary objectives of the foreign policy of the United States is the creation of conditions in which we and other nations will be able to work out a way of life free from coercion. . . .
>
> I believe that we must assist free peoples to work out their own destinies in their own way.
>
> I believe that our help should be primarily through economic and financial aid which is essential to economic stability and orderly political processes. . . .

This new "doctrine" raised questions concerning its scope and its ultimate cost. What commitments would it involve? Did it contemplate word-wide aid on something approximating wartime lend-lease? Some countries made tentative inquiries.

Then came the proposal of Secretary of State Marshall that aid to Europe should be based on a joint program agreed to by a number, if not all, of the European nations.

IV. THE EUROPEAN RECOVERY PLAN

Secretary Marshall, in a speech at Harvard University on June 5, 1947 proposed that Europe itself must take the initiative in planning its own recovery. He asked that the countries of Europe draw up a unified plan for reviving the means of production and trade for Europe as a whole—or for as large a group of countries as would co-operate. Such a plan, he suggested, would assist the American people in understanding the character of the problem and the remedies required, and would be a prerequisite of future

[48] *New York Times*, Mar. 8, 1947.

[49] The text of the President's speech is given in the *New York Times*, Mar. 13, 1947.

substantial aid from the United States. The heart of his proposal is contained in the following paragraph:

> It is already evident that, before the United States Government can proceed much further in its efforts to alleviate the situation and help start the European world on its way to recovery, there must be some agreement among the countries of Europe as to the requirements of the situation and the part those countries themselves will take in order to give proper effect to whatever action might be undertaken by this Government. It will be neither fitting nor efficacious for this Government to undertake to draw up unilaterally a program designed to place Europe on its feet economically. This is the business of the Europeans. The initiative, I think, must come from Europe. The role of this country should consist of friendly aid in the drafting of a European program and of later support of such a program so far as it may be practical for us to do so.[50]

Secretary Marshall's proposal met with immediate acceptance in Western Europe.

On the initiative of Great Britain, with French co-operation, invitations were sent out to all of the countries of Europe to participate in a conference that would undertake to frame a plan for European co-operation. Sixteen countries accepted the invitation, but the remaining European countries decided not to take part.[51] The conference opened in Paris July 12, and adjourned four days later. During its short life it set up a Committee of European Economic Co-operation (CEEC) and a number of technical committees, to collect information and prepare a report with regard to specific requirements during the four years 1948-51.

The Committee of European Economic Co-operation submitted its recovery program in September. This program was signed by representatives of the sixteen participating countries and sent to Secretary Marshall September 22, 1947, who transmitted it to President Truman the following day. The program set forth

[50] *World Report*, June 17, 1947, p. 33.

[51] The participating countries were. Austria, Belgium, Denmark, France, Greece, Iceland, Ireland, Italy, Luxemburg, Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, United Kingdom. The western zone of Germany was also included.

the need for expanded production and the creation of financial stability in the sixteen participating countries, for co-operation between these countries, and for a solution of their trading deficit with the American continent. Problems of production, consumption, and imports were considered in detail. It was estimated that net imports required from America for the four years 1948-51 would amount to 22.4 billion dollars. Of this amount some 3.1 billions represented machines and equipment which might be financed by loans from the International Bank. The deficit to be met by the United States, therefore, was put at approximately 19.3 billions.

The Marshall Plan was also studied from the American point of view.

Soon after Secretary Marshall first proposed the drafting of a recovery plan for Europe, President Truman took steps toward determining "The impact upon our domestic economy of the assistance we are now furnishing or may furnish to foreign countries . . ." and the ". . . limits within which the United States [might] safely and wisely plan to extend assistance. . . ."[52] He appointed three committees to study this question: two of them made up of government personnel, and the third a "non-partisan committee of distinguished citizens" under the chairmanship of Secretary of Commerce Averill Harriman.

The reports of the three committees were submitted to the President between October 18 and November 8, 1947. These reports were in agreement that aid should be furnished, and that the United States "has the means to meet the critical needs of Europe." The report of the Harriman Committee set forth four general principles of controlling importance in the American program of aid to Europe: First, we must help Europe to help itself. Second, private capital should be encouraged to go to work in Europe, and this will require currency stability, a reduction of restrictions and regulations, and a freer movement of men and money. Third, a distinction should be drawn between emergency

[52] White House press release, June 22, 1947.

relief and more permanent building of recovery, the latter being financed by loans rather than grants. Fourth, the agencies executing the program must adapt their operations to conditions in the markets of the United States. The Harriman Committee also urged that aid to Europe must be on a year-to-year basis, and subject to the constant, vigilant review of Congress.

A bill providing long-range aid to Europe was passed by Congress April 2, 1948.

To speed consideration of a long-range recovery program and to provide emergency interim aid for France, Italy, and Austria for the first quarter of 1948, President Truman called a special session of Congress to open November 17. The administration also asked for an additional (interim aid) appropriation to cover occupation costs in Germany, Japan, and Korea. As passed December 17, 1947, the bill allocated 597 million dollars for France, Italy, and Austria (Public Law 389, 80 Cong. 1 sess.).

The administration's long-range plan for aid to Europe was presented to Congress the day the interim aid bill was passed. It called for 6.8 billion dollars to cover the 15 months April 1, 1948 to June 30, 1949, with appropriations for later years to be considered subsequently on an annual basis. Representative Eaton, chairman of the House Foreign Affairs Committee, indicated on January 2 that the program would not have easy passage. As a matter of fact, however, it was passed April 2, and became law the following day, almost meeting the April 1 deadline set by the President.

The measure, known as the "Economic Co-operation Act of 1948," underwent some changes in its course through committee stage, debate in House and Senate, and conference compromise. As passed, it provided 6,098 million dollars for foreign aid, of which 1 billion dollars was made available to the administrator of the act to be used for loans to the participating countries. In March 1948 Congress appropriated an additional 55 million dollars under this act, but congressional appropriation of the remainder of the amount authorized was delayed until June 27, 1948. The bill then passed contained

provisions for army and navy administration costs and relief supplies in occupied areas and for the International Refugee Organization." The total amount appropriated was 6,031 million dollars, itemized as follows:

	Million Dollars
Economic Co-operation Administration	4,000
Aid to China	400
Occupied areas, administration costs and relief	1,300
Greek-Turkish aid	225
International Children's Fund	35
International Refugee Organization	71
Total	6,031

The Economic Co-operation Act commits the United States conditionally to participation in a four-year program through June 1952, but Congress will have to renew the basic authorization for the program each year as well as to make year-by-year appropriations.

A government agency established under the act will administer aid to Europe.

The agency established by the Economic Co-operation Act for its administration is known as the Economic Co-operation Administration—headed by an Administrator. In addition to his other functions, the Administrator is made a member of the National Advisory Council.[53] To give him the advantage of consultation with citizens of broad and varied experience, provision is made for a Public Advisory Board consisting of not more than 12 members and the Administrator, who is to be chairman of the board. Provision is also made for a Special Representative in Europe (appointed by the President) who will receive his instructions from the Administrator, and for special ECA missions to be established for each of the participating countries.

[53] A body charged with co-ordinating the policies and operations of all government agencies making foreign loans or engaged in foreign financial or monetary transactions. See also p. 202 above.

Congress adopted and wrote into the law the pledges of self-help and mutual aid that the 16 participating countries had incorporated in the Paris report of the Committee for European Economic Recovery. These pledges later will be embodied in a multilateral treaty between the United States and the participating countries or an organization representing any or all of them.

The act provides that the financing of aid will be through grants or on payment in cash, or on credit, or other appropriate terms. The Administrator in consultation with the National Advisory Council will decide whether a participating country will be required to make payment and the terms of payment if required—his decision to depend on the character and purpose of the assistance and upon whether there is reasonable assurance of repayment considering the capacity of such a country to make payment. American firms that supply goods sent to Europe will be paid in dollars out of funds provided by the United States Treasury. Countries receiving the goods on a grant basis will pay for such goods by depositing a commensurate amount of their domestic currency in a special account. This deposit fund is to be used, as agreed between the "country and the administrator, . . . for purposes of internal monetary and financial stabilization, for the stimulation of productive activity and the exploration for and development of new sources of wealth or for . . ." other expenditures consistent with the purposes of the act.

One feature of the bill is intended to encourage the investment of private American capital in Europe. Subject to certain restrictions, it provides that the Administrator may encourage American investments in approved projects by guaranteeing the transfer into dollars of foreign currencies or foreign currency credits, received as income on or as repayment for the approved investment.

In Europe on April 16, 1948 diplomats of the countries participating in the recovery program signed a convention for collective handling of the plan. They also signed a legally binding contract for self-help, and began setting up machinery for the operation of the plan.

Exports from numerous countries will be stimulated by the operation of the recovery plan.

The American Administrator can, and is expected to, authorize purchases of commodities and services in foreign countries as well as in the United States. Latin American countries in particular are expected to benefit from such purchases. Argentine beef and wheat, Venezuelan and Colombian oil, nitrate from Chile and Peru, and other foods and raw materials from various countries should be in increased demand in the countries of Western Europe.

In all, as much as 1.4 billion American dollars are expected to be spent during the first year of the plan to buy Latin American goods for Europe. This will enable Latin American countries to sell their surpluses and buy the industrial equipment they want from the United States. The greater part of this sum will be spent in Argentina, but other countries will participate. Canada also will benefit. It is estimated that during the first year of the plan, about 1 billion dollars of United States funds will be spent in Canada for goods to be shipped to Europe.[54]

Continuation of foreign aid three years after the end of the "shooting war" has the cautious approval of the American taxpayer who ultimately must meet the bill contracted by the government. In general, he realizes that part of the world cannot continue prosperous while political instability prevails and economic and financial conditions continue to deteriorate in many countries. The specter of a third world war, with Western Europe still in desperate straits, provides a strong argument for aiding recovery now in every way possible. At the same time, it is realized that there can be no certainty that four years of the European Recovery Program will actually bring recovery or will prevent the outbreak of another war. Adoption of the program is recognized as a gamble, with the stakes high.

Meantime the government of the United States has undertaken in various ways to promote the investment of private American

[54] *U.S. News and World Report*, Apr. 16, 1948, p. 23, also Jan. 23, 1948, p. 28.

capital in foreign countries—either in the form of loans or of direct investments. The difficulty is that so long as government funds are supplied in large amounts and on a gift basis, there is little or no foreign demand for capital supplied by private investors. For the time being, at least, the only real outlets for private capital abroad appear to be in the field of direct investment in business ventures. Some of this is even now occurring, especially in oil and mineral developments.

CHAPTER X

GOVERNMENT POLICIES AFFECTING AMERICAN INVESTMENTS ABROAD

As pointed out in earlier chapters, the traditional source of capital for investment abroad has been the savings of private investors—including corporate savings. This applies to both portfolio and direct investments, and also to short-term business loans. However, policies pursued by governments strongly affect the export of investment capital by their nationals. The prospective private investor contemplating the purchase of foreign securities or direct participation in some business undertaking abroad is influenced by the policies his government has followed in the past in dealing with the political risks that sometimes threaten the holders of foreign securities or foreign properties. The investor's attitude is also partly determined by any action that his government takes for the purpose of encouraging—or discouraging or controlling—new investments. The present chapter will review some of the methods by which the government of the United States has directly or indirectly influenced the export of American investment capital.

I. PROTECTION OF EXISTING INVESTMENTS

In addition to ordinary business risks, foreign investments—both direct and portfolio—are subject to extraordinary hazards of a political character. The contracts of foreign governments covering loans or concessions are sometimes canceled or revised by unilateral action without regard for the rights of bondholders or concessionaires. Even where the terms of the original contract appear to bind the debtor government unalterably, they may afford the creditors little actual protection. The difficulty is that a sovereign state cannot be sued without its consent; and if suit is permitted and judgment rendered, the defendant state may determine for itself whether it will comply. American investors therefore have frequently sought protection by their own government against the

treatment received from foreign governments. The action taken by the State Department in such cases helps determine the attitude of American investors toward supplying capital for foreign governments and foreign enterprises.

Methods of dealing with foreign defaults have changed in recent decades.

During the latter part of the nineteenth century and the early decades of the twentieth, the United States frequently intervened in the affairs of Caribbean countries. The purpose was to prevent armed invasion by European countries bent on collecting payment on their loans and investments in these countries. In a number of countries the United States took over control of the customs administration in order to assure payment to European creditors. Later, when the debts had been refunded by American loans, the controls over customs receipts were still maintained. Furthermore, the control agreements in some cases specifically provided for the use of armed forces for protecting the customs receivership.

Some of the financially supervised governments attempted to evade the customs control by placing internal revenue duties on imported articles. Later the United States extended its control over the collection of those duties. This was the case in the Dominican Republic and Liberia, while Nicaragua operated for some years under the threat that internal tax collections might be brought under American control.[1] Armed intervention, dollar diplomacy (supervision over the finances of debtor countries) and the extreme position of President Coolidge that ". . . the person and property of a citizen are a part of the general domain of the nation, even when abroad . . . ," were effective means of getting performance of contract from reluctant debtors. Also, such intervention actually contributed to the development of order and stability in the countries concerned. But intervention in the affairs of debtor countries could not be used against strong debtors, and in any case it created hostility toward the United States.

[1] For further discussion see Benjamin H. Williams, *Economic Foreign Policy*, (1929), pp. 175-216.

Difficulties with the great powers of Europe over the funding and payment of the interallied debts during the 1920's, and the wholesale defaults that came with the depression a decade later, made intervention in the affairs of defaulting debtors altogether impracticable. This may have had an effect on the attitude of the State Department with regard to Caribbean countries. At any rate, under the "good neighbor" policy followed in the 1930's, the United States signed a protocol declaring that intervention of any party in the internal or external affairs of any other was inadmissible. In accordance with this agreement, the State Department now holds to the doctrine that debt settlements should be negotiated by the interested parties, and not by the United States government.[2]

In 1945 the Minister of Foreign Affairs of Uruguay suggested multilateral and collective intervention by the countries of the Pan American Union in the event that any government notoriously and repeatedly violated "the elementary rights of man" and failed to comply with its freely contracted international obligations. While the United States was ready to accept this proposal, other governments "received it with greater reserve."[3] Whether such an agreement would give protection to foreign investors is, therefore, an unsettled question.

The State Department still intervenes to prevent discrimination against American holders of defaulted foreign bonds.

In recent years the Department of State has acted in several cases to protect American bondholders against discrimination by a foreign government. Action taken in such cases is now limited to "protest" or "diplomatic intervention" as compared with former methods of direct intervention and control. Brief consideration of two such cases will illustrate.[4] One of these concerned the British (Niemeyer) plan for readjusting the foreign debts of Brazil. The

[2] Securities and Exchange Commission, *Report on . . . Protective and Reorganization Committees*, Pt 5, pp. 393-416, 445, 526.

[3] L. S. Rowe, Pedro de Alba, *The United States and Latin America*, Pan American Union (1946), p. 6.

[4] On the Brazilian settlements see Securities and Exchange Commission, *Report on . . Protective and Reorganization Committees*, Pt. 5, pp. 386-89, 417-19; on the German see the same report, pp. 420-37.

other involved the arrangements Germany made with its foreign creditors following the German debt moratorium of 1933.

In 1933, when Brazil was on the verge of promulgating a debt settlement that discriminated against American bondholders, the Department of State requested the Brazilian government to negotiate with representatives of the American bondholders. Early in 1931, Brazil had invited Sir Otto Niemeyer to make a survey of its financial situation and needs. But conditions deteriorated rapidly and before the end of the year payment was stopped on a number of the federal, state, and city bond issues that had been sold in foreign countries. Other defaults followed in 1932. In 1933 Niemeyer again went to Brazil where he worked with various officials on a plan for making partial payment on the external debt —held in Great Britain, Holland, France, and the United States. Under the proposed plan, the different issues of bonds were classified. Foreign exchange available for debt service was then allocated on a graduated scale, with full service provided for class one bonds, and no payment at all for the lowest class. The bonds principally held in the United States were put in the next to the lowest class. At the request of the State Department the plan was reconsidered and improved treatment was secured for American bondholders.

The facts in the German case were as follows: In June 1933 Germany declared a moratorium on its foreign debts, but shortly afterward it agreed to provide full debt service for the Dawes and Young loans, and 75 per cent on interest account (partly in scrip) for other external bonds. However, two countries (the Netherlands and Switzerland) put pressure on Germany to obtain preferred treatment for their nationals holding German bonds. These two countries were in a strategic position because their trade with Germany showed an import balance—that is, on balance they had net payments to make to Germany. By threatening to impound enough of these payments to cover debt service on the bonds held by their nationals, they were able to arrange clearing agreements with Germany under which their bondholders received full payments of interest. The State Department made every effort to put American bondholders on a par with those of other countries, but without success.

A year later, June 1934, the German moratorium was extended to the Dawes and Young loans. These loans had been sold in eight foreign countries—the United States, Great Britain, France, Belgium, Switzerland, Italy, Holland, and Sweden. Each of these countries except the United States had an import balance in its trade with Germany. Thus all but the United States were able, through clearing arrangements, to get payment on these bonds. Time after time the United States protested the discrimination, but was unable to get equality of treatment for its bondholders.

Discrimination against American bondholders was also involved in the initial readjustment plans developed for Hungary and Poland. In both cases the Department of State intervened to the advantage of the American bondholders.

The government has participated in arranging settlements for expropriated American properties abroad.

Political changes, labor unrest, nationalistic ambitions, resentment toward the apparent success of foreign enterprises, and fear of foreign domination, have led some governments to expropriate foreign-owned properties under their jurisdiction. American companies have been the victims of seizure in Russia, Mexico, Bolivia, Fascist Italy, and recently in various countries of eastern Europe. In all of these cases the State Department has participated—or is now participating—in efforts to reach a settlement.

The Mexican constitution of 1917 proclaimed the principle that the land and the economic resources beneath it might be taken over by the nation and, within a year, several foreign governments had lodged complaints against this attack on the property rights of their nationals.[5]

At the time, the government of the United States was unable to take part in the controversy because diplomatic relations between Washington and Mexico had been severed in April 1914. When relations were resumed in August 1923, it was on the basis of a

[5] See pp. 150-53 above, also *American Petroleum Interests in Foreign Countries*, Hearings before a Special Senate Committee Investigating Petroleum Resources, 79 Cong. 1 sess. pp. 21, 87-91, 247, 249-51, 316. Expropriation of land had begun even before 1917, while the oil properties were taken over in 1938.

settlement that included agreements with regard to American investments in land, mining, and oil. From that time forward American investors in such properties made frequent calls on their government for protection against Mexican legislation affecting them. When terms and conditions of payment were finally reached (regarding land in 1941, and oil in 1943), considerable dissatisfaction was shown by American investors, particularly by the oil companies.[6] According to their records the settlement cost the oil companies a loss of more than 75 per cent of the value of their Mexican properties.[7] The government, on the contrary, expressed satisfaction that: "The American interests affected were promptly and energetically protected."[8]

According to the records the Bolivian settlement for expropriated oil properties (dated January 27, 1942), also arranged by the State Department, closely approximated confiscation. The amount allowed the company was only $1,500,000, plus $230,000 interest, for properties that the year before had been valued on the books of the company at $17,000,000.[9] It may be noted that on January 28, 1942, plans for forming the Bolivian Development Corporation were reported from Rio de Janeiro (where the American conference of foreign ministers was held), stating the funds would be furnished by the Export-Import Bank. In December of the same year a contract giving Bolivia 15.5 million dollars for development purposes was signed in Washington by the president of the Export-Import Bank and representatives of Bolivia.[10]

The comment of one writer on the work of the State Department with regard to Mexican and Bolivian oil was as follows: "There was a growing awareness in the Department (from 1941) that government help had been extended only after a crisis had

[6] On the 1941 settlement see an editorial in *The Commercial and Financial Chronicle*, Nov. 27, 1941, p. 1219.

[7] *American Petroleum Interests in Foreign Countries*, Hearings, pp. 21, 247. See also value reported by the U. S. Department of Commerce, *American Direct Investments in Foreign Countries in 1936*, p. 12, compared with terms of settlement given on page 153 above.

[8] The same, p. 316.

[9] The same, pp. 84, 248-49.

[10] *The Commercial and Financial Chronicle*, Feb. 12, 1942, p. 672; Jan. 14, 1943, p. 200.

arisen, and too late to deal with it effectively, . . ." On the same subject the general counsel of Standard of New Jersey testified before the Special Senate Committee on Petroleum Resources as follows: "American oil industry experience . . . teaches that the chief problem now facing us is not any longer how to acquire initial rights abroad, but how to make secure those which we now hold or which we may subsequently acquire."[11]

Recent expropriations raise new and complicated problems for the State Department.

At the present time the State Department is faced with uncertainty concerning American investments in those portions of Latvia, Estonia, Lithuania, and Finland transferred or expected to be transferred to Russia. There has been expropriation of American properties in the nationalized industries of Czechoslovakia, Poland, and Yugoslavia and, during the war, seizure of American properties by the Fascist government of Italy. There has been seizure of American-owned properties in Germany and in eastern Europe in satisfaction of reparation claims against Germany under the terms of the Yalta and Potsdam agreements. On some of these problems progress is now being reported.

Italian legislation has already been passed returning to American owners properties seized during the war.[12] The Czechoslovak government, prior to the recent change in government, expressed willingness to pay for what it had taken, and negotiations were then under way to determine the amount to be paid. In Poland it has been announced that American citizens adversely affected by the nationalization of industry in Poland will be compensated on the same basis as Polish citizens.[13] In Yugoslavia under the nationalization decree of December 6, 1946, all industrial and business enterprises of economic importance have been taken over by the state, but the question of payment to foreigners who owned or had an interest in any of the nationalized properties still remains un-

[11] *American Petroleum Interests in Foreign Countries,* Hearings, p. 313.

[12] The same, p 329

[13] Samuel L. Sharp, *Nationalization of Key Industries in Eastern Europe* (1946), pp. 23, 24, 46-47.

settled.[14] At the same time Yugoslavia has demanded return of assets in the United States frozen during the war. To this the United States has countered with a demand for a general settlement that would provide compensation for the United States government and its nationals for their losses and expenditures.

Russia has agreed to pay Canada 20 million dollars for nickel properties belonging to the International Nickel Company of Canada and the Mond Nickel Company—located in the part of Finland annexed by Russia. These are Canadian companies in which there is a large American investment.[15] In Austria, Romania, and Hungary American oil companies have large investments that, for all practical purposes, are under Russian control. But the Russians have tacitly admitted that title to the properties is still in the American companies.[16]

II. POLICIES TOWARD NEW FOREIGN INVESTMENTS

In the main the government of the United States has favored American investment abroad, both portfolio and direct, and on occasion has strongly supported Americans seeking new foreign concessions. However, it has sometimes imposed controls, and even embargoes, on the sale of new foreign securities—with a view to protecting the investor or the "national interest."

The "open door" and protection of existing holdings have encouraged new commitments.

The doctrine of the "open door" has been developed by the United States in opposition to the "spheres of influence" doctrine advocated by the great European powers. Originally formulated to meet the claims of European countries to exclusive trade advantages in certain parts of China, the American policy was later applied to *investment* opportunities in China and all over the world. It was interpreted to mean equal opportunity for American capital to participate with capital from other investing countries in

[14] *United Nations World*, March 1948, p 54.

[15] *American Petroleum Interests in Foreign Countries*, Hearings, pp. 104, 328.

[16] *World Report*, Jan. 28, 1947, p. 21; *New York Times*, July 18, 1946, Feb. 25, 1947.

developing world resources and in furnishing loan capital to foreign borrowers. Since the turn of the century, the government has assisted American enterprises in obtaining foreign concessions in many countries but, as Chapter VII shows, many doors still remain closed.

Oil has attracted special attention because of its importance in both war and peace. The heavy military and naval demands of World War I aroused anxiety regarding America's future supply of this power mineral. In 1920 the director of the United States Geological Survey warned of an impending shortage of oil in the United States and urged the government ". . . to give moral support to every effort of American business to expand its circle of activity in oil production. . . ."[17] Similar warnings came from other sources. Therefore, for more than a decade following World War I, the government advocated and actively supported the foreign expansion of American oil companies.

During this period the government was particularly concerned with the closed door policies that barred American companies from participating in the development of the oil of the Middle East—from Iraq, Bahrein, and Kuwait. The oil of Iraq was the subject of the Anglo-French agreement signed at San Remo April 1920 under which American oil companies would have been excluded from this recently organized British mandate. The United States vigorously protested this exclusion, demanding equality of treatment for American capital. Finally, in 1928 the question was settled, with American companies assigned a 23½ per cent interest in the international corporation organized to develop that field.[18]

Similar situations were faced in Bahrein and Kuwait, semi-independent Arab states whose foreign affairs are conducted by the British. Here American companies were met by the British "nationality clause" which prevented them—or anyone except a British subject or firm—from obtaining concessions. After a year of negotiations (March 1929-May 1930) the State Department suc-

[17] *American Petroleum Interests in Foreign Countries,* Hearings, 79 Cong. 1 sess. (1945), pp. 299, 323.

[18] The same, pp. 304-05, 308; also *Foreign Contracts Act,* Joint Hearings before a Subcommittee of the Senate Committee on the Judiciary, 79 Cong. 1 sess., p. 159.

ceeded in opening the door for a Standard of California concession in Bahrein. Negotiations regarding concessions in Kuwait extended from November 1931 until December 1934 when a concession was granted to the Kuwait Oil Co., which was 50 per cent British (Anglo-Persian Oil Co.) 50 per cent American (Gulf Oil).[19]

During the 1920's the State Department also protested against the closed door policy of the Netherlands government with regard to oil in the Netherlands Indies. To open that door to American companies, the government took retaliatory steps against a Royal Dutch subsidiary operating in the United States.[20]

American investment in foreign rubber plantations has also been favored by the government—by President McKinley's message to Congress in 1899 and by the hearings before a congressional committee in 1926.[21] However, as early as 1926 the possibility of synthetic rubber production was considered, and when the rubber shortage and supply problem was discussed by a Senate committee in 1947, the problem of American-owned foreign plantations had lost some of its urgency. There had been a shift in emphasis from foreign-grown natural rubber to the domestically produced synthetic product. But the purpose remained the same, to advance a policy that would best serve the national interest.

The State Department has sometimes advised American bankers against making certain foreign loans.

The governments of lending countries have long exercised control over foreign lending as an adjunct to diplomacy. In France a loan must have the permission of the Minister of Finance before it can be admitted to quotation on the Paris market, a requirement that has been used to gain trade concessions and diplomatic alliances. In Britain—in addition to the controls imposed on foreign lending as a means of protecting the pound—the government has sometimes intervened to prevent issue of a loan in conflict with public policy, or to help some private group acquire an important foreign

[19] *American Petroleum Interests in Foreign Countries*, Hearings, pp. 23-24.

[20] The same, pp. 22, 307-08.

[21] *Crude Rubber, Coffee, Etc.*, Hearings before House Committee on Interstate and Foreign Commerce, 69 Cong. 1 sess. Synthetic rubber was considered at the hearings—see p. 343.

concession. By passage of the Colonial Stocks Act it has also facilitated loans to British colonies and dominions.[22] In the United States the government has long followed a policy of indicating its objections, if any, to the flotation of new foreign issues. Such government opposition has been accepted by the banks as sufficient reason for breaking off negotiations with regard to the loan in question.

In the years preceding World War I there were only a few cases in which the government of the United States exerted or threatened a veto on a proposed foreign loan. In 1921, however, the government requested the bankers to keep the State Department informed regarding all prospective foreign loans. According to the Secretary of the Treasury, Andrew Mellon, this policy was adopted as a way of dealing with probable defaults on the American war loans to the Allies.[23] This policy was formalized by the passage of the Johnson Act in 1934, following actual default on the loans.[24] The loan embargoes have also been used for various other purposes. For example, in 1925 the Department of State disapproved a loan to Sao Paulo for coffee valorization, also a loan to the German Potash Syndicate—on the ground that these loans would have given aid to foreign raw-material monopolies whose price policies were under criticism in the United States. Until passage of the Securities Act of 1933, however, the capital embargo had not been applied in the United States to prevent fraudulent investments.

Legislation controlling new foreign issues followed the market crash of 1929.

The Securities Act of 1933, which is concerned principally with the original issue of securities, requires the filing of registration statements in connection with new loans of foreign governments and foreign corporations as well as domestic corporations. The schedule used for foreign issues calls for the following information: the

[22] Such loans, if they conform with certain Treasury regulations, become eligible for purchase by trust bodies and institutions, and therefore are able to command a wider market and better terms than securities not on the trustee list

[23] Williams, *Economic Foreign Policy of the United States*, pp 87-99, and references cited. In 1927 the State Department approved a French refunding issue although it continued to veto new issues of the French government because that country's war debt was still unsettled.

[24] See also Chap. 7, p. 145.

purposes of the issue; the amounts and the character of existing and prospective debts of the issuer; any defaults which may have occurred within 20 years prior to the time of filing; receipts and expenditures; and details concerning the underwriting, pricing, and expenses of the issue. The purpose of this statement is to provide the prospective investors with all relevant information concerning a new issue, and so prevent the sale and purchase of fraudulent securities.

The Securities and Exchange Commission may refuse to permit a registration statement to become operative if the statement appears to be "incomplete or inaccurate in any material respect." And until the registration statement is accepted by the Commission, the mails and other interstate transportation and communication facilities cannot be used for transactions in a given security. In case of a new issue intended for sale in the United States, this provision gives the Commission power to obtain disclosure of all facts affecting the loan—or to bar the issue from the American market. But it has proved ineffective in the case of foreign bonds offered in lieu of cash interest payments.

On two occasions the German government filed statements with the Commission covering bonds to be issued to holders of defaulted dollar bonds of German states, municipalities, and corporations—for 69 million dollars in September 1936, and for 73 million dollars in March 1939. The Commission noted that the statement filed was incomplete as it failed to give information concerning the short-term debt contracted by the Reich in the form of advance-tax certificates, employment-creation bills, interest-subsidy certificates, and other government bills.[25] But if dealing in these funding bonds had been prohibited, the penalty would have fallen on American holders of the defaulted bonds rather than on the German government. The Commission therefore permitted dealings in the securities, but issued a long statement explaining the efforts it had made to get complete information regarding the German budget and short-term debt.

[25] *The Commercial and Financial Chronicle*, Mar. 6, 1937, p 1487; Mar. 11, 1939, p. 1371, Securities and Exchange Commission, *Report on the Study . . . of Protective and Reorganization Committees*, Pt. 5, p. 432. See also pp. 222-24 of this chapter.

The government is sometimes urged to guarantee foreign loans thereby increasing their salability.

It is sometimes argued that if the United States government would guarantee payment of principal and interest on foreign bonds, such bonds would find a ready and wide market among private investors at home and abroad. While the government of the United States has refused to adopt such a policy, it is of interest to review the experience of other countries that have guaranteed foreign loans.

The debt records of many countries show that some loans floated by their provinces and municipalities have been guaranteed by the central government. Also loans issued by colonial governments are, as a rule, guaranteed by the government of the empire country concerned. Such arrangements are mainly family matters. In case of a threatened default the guarantor is in a position to choose whether it will exercise pressure on the delinquent member of the family or will itself shoulder the burden of the unpaid obligation.

The records also show a comparatively few cases of loans guaranteed for governments outside the immediate family of the guarantor. Probably the most notable of these have been the guaranteed loans floated by Austria, Greece, Turkey, and Egypt during more than a century preceding World War I, and loans floated by Austria, Poland, and Czechoslovakia in the interwar period.

1. *Loans to Greece.* A loan to Greece was guaranteed by Britain, France, and Russia in 1833. This was shortly after Greece, with the aid of these three powers, had fought for and gained its independence from Turkey and had constituted an independent kingdom under the protection of the same three powers.[26] For many years the Greek government paid little or nothing on this loan, service being met by the guarantors until about 1871 when the

[26] In spite of this guarantee, this loan was never listed on the London Stock Exchange because two Greek loans floated in 1824 and 1825 were already in default. Corporation of Foreign Bondholders, *Annual Report for 1923*, p. 169.

guarantors paid off the amount of the debt still held by the public. Thereafter Greece made regular payments on the debt to the British and French governments.

Another war, this time to free the Island of Crete from Turkish rule, was successfully waged by Greece in 1897-98, again with the aid of Britain, France, and Russia. Again, the end of the war was followed by a loan guaranteed jointly and severally by these governments. This time an international commission was set up to take over partial control of Greek finances, including collection of revenues pledged as security for various foreign loans. In this way payments on the loan were provided from Greek sources until the great depression intervened. Since 1932 the British and French governments have met interest and sinking fund payments under their guarantees, but part of the amount paid by them has been repaid by Greece. Russia repudiated its obligation under this guarantee, along with all outstanding Russian government debts, following the revolution.

2. *Turkish loan.* A loan to Turkey was arranged in 1855—near the close of the Crimean War—with interest guaranteed by the British and French governments. It appears that Turkey did not meet sinking fund payments after the spring of 1875. Interest on the debt was usually paid by Britain from tribute that Egypt remitted for Turkish account direct to the Bank of England—but sometimes was paid from English resources. Settlement of the Ottoman debt following World War I released Turkey from all liability under the loan and allocated part of this guaranteed debt to Egypt and the rest to Great Britain. The Egyptian portion has now been paid in full, and service on the rest is being met by the British government.

3. *Loan to Egypt.* Egypt in 1885 floated a foreign loan of 9 million pounds sterling, guaranteed by six great powers, Britain, France, Austria-Hungary, Italy, Germany, and Russia. Of the total, 4 million pounds were used for meeting the expenses involved and the indemnity assessed in connection with a revolt against foreign control over the country's finances—a revolt that

was brought to an end by British occupation of Egypt in 1882. The rest of the loan proceeds were used for irrigation and other Egyptian government expenditures. Throughout the history of this loan payments were promptly met. And throughout its history it was administered by the Public Debt Commission—or *Caisse de la Dette*—a body made up of one representative from each of the guarantor countries. In 1943 the portion of the loan still outstanding was paid off in full.[27]

4. *Loans to Austria.* At least five Austrian government loans have carried the guarantees of foreign governments. Two loans totaling 5.6 million pounds were made through a British firm and guaranteed by the British government in 1794 and 1795. In the words of one narrator, these loans ". . . proved to be in fact British securities." Following long-standing default, the claims of British bondholders were settled for 2.5 million pounds, or about half the face value of the bonds. A loan floated in London the following year (1824) provided the funds required under the terms of the settlement.[28]

The first guaranteed Austrian loan of the interwar years was issued under the auspices of the League of Nations in 1923 (due 1943) in Great Britain, the United States, Austria, Czechoslovakia, France, Italy, Switzerland, Sweden, Belgium, and Holland. The participation of the several countries ranged from Britain's 51.7 million-dollar portion to Holland's 900 thousand. Eight governments guaranteed this loan as to principal, interest, and redemption payments, (and deposited their own bonds with the national bank of Switzerland as trustees for the loan), in the proportions indicated by the following table:

[27] A good account of Egyptian debt history from 1863 to 1913 is given in Herbert Feis, *Europe: The World's Banker, 1870-1914* (1930), pp. 382-97. For subsequent years see *Moody's Government and Municipals, 1940*, and the Corporation of Foreign Bondholders, *Annual Report for 1943* See also Ferdinand Schevill, *The History of the Balkan Peninsula* (1922), pp 440-43.

[28] Leland Hamilton Jenks, *The Migration of British Capital to 1875* (1927), p. 348, note 14.

	Percentage
Great Britain	24½
France	24½
Czechoslovakia	24½
Italy	20½
Belgium	2
Sweden	2
Denmark	1
Holland	1
Total	100

This loan helped Austria establish and maintain financial and monetary stability for about a decade, but by 1933 the country was again in difficulty.

To ward of default on the external loans of the country, another guaranteed loan was issued in 1933 (due 1953). The list of countries participating in issuing this loan was the same as in 1923 except that the United States, Austria, and Sweden were not included. Principal and interest on the loan was this time guaranteed by the respective governments of the countries of issue, with no joint guarantee involved.[29] Service on the British, French, Belgian, and Dutch portions of the loan has been paid out of funds provided by the guarantor governments concerned. No payments on other portions of the loan appear to have been made since January 1, 1940.

In December 1934 threatened default was again prevented, this time by the guaranteed conversion loan of 1934 (due 1959) issued to convert the 1923 loan to lower rates of interest. The participating and guarantor countries were the same as in 1923 except that Spain took a portion, guaranteed by the Spanish government, and that no part of the loan was offered for cash in the United States. The Swiss government subscribed directly for a portion of the

[29] The Swiss portion was not offered to the public but was taken directly by the Swiss government. The Netherlands portion is held by two Netherlands government pension funds. Corporation of Foreign Bondholders, *Annual Report for 1941*, p. 25.

loan and did not join the guarantor group.[30] In December 1939 and later years holders of the Belgian, British, Dutch, French, Swedish, and Swiss portions of the loan have received partial payment of the amounts due them, funds for the purpose being provided by certain of the guarantors. Interest on the Spanish portion of the loan has been paid in full by that government. Information regarding the bonds issued in other countries is not available.

5. *Loan to Poland.* A Polish government loan issued in Italy in 1924 was guaranteed by the Italian government in case an armed invasion prevented Poland from meeting service on the issue. During the depression Poland found it difficult to meet its foreign obligations and in 1937, under an arrangement with the Italian government, agreed to deliver coal to Italy to meet service charges on this loan as well as certain commercial obligations. The following year payment was made partly through a trade arrangement, partly from the reserve fund for the loan. With Germany's invasion of Poland, the Italian government became liable under the terms of its guarantee.

6. *Loan to Czechoslovakia.* A loan to the Czechoslovakian government issued in France in 1932 and the refunding issue that replaced it in 1937 (due in 1942) were both guaranteed—principal and interest—by the French government. The war undoubtedly prevented Czechoslovakia from meeting payment on the loan, but we have no information concerning the action taken by the government of France.

Of the loans considered above, 6 were issued prior to World War I and 6 in the interwar period. Of those issued before the first World War, 3 were loans on which the guarantor governments had to meet a considerable part of the payments made to bondholders; the other 3 were loans on which performance was entirely or reasonably satisfactory, perhaps because they were administered by representatives of the guarantor governments. Of the 6 issued

[30] Bonds of the three loans were issued in the currencies of the several participating countries. Further details regarding the Austrian loans are given in The Royal Institute of International Affairs, *The Problem of International Investment* (1937), pp. 239-41; *Kimber's Record of Government Debts* (1934); Corporation of Foreign Bondholders, *Annual Report for 1944*. *Moody's Governments and Municipals, 1940;* the same, *1947*.

during the interwar period; 2 were refunded by new guaranteed loans. The other 4 were forced into default by German invasion. However, the evidence indicates that, barring the invasion, Poland and Czechoslovakia would have been able to meet their debt payments, while Austria's financial situation was so precarious that eventual default probably could not have been avoided.

III. OPERATIONS THROUGH THE INTERNATIONAL BANK

The International Bank and Fund were planned as important postwar aids for getting the wheels of industry and trade turning again throughout the world. Two great wars and a depression had disrupted and dislocated the intricate financial mechanism by which the exchange of goods and services everywhere had long been organized and balanced. The purpose of the Bretton Wood Conference was to devise ways of repairing this control mechanism and putting it in operating condition. The Fund was set up to deal with the problem of currency stablization and of freeing the flow of trade from obstacles such as clearing arrangements, bilateral trade agreements, and blocked currency accounts. The Bank's special task is to encourage private investors to participate in supplying long-term capital needed for restoring and increasing the productivity of devastated and undeveloped areas. As a member of the Bank the United States will co-operate with 44 or more other member nations.

There are three ways in which the Bank may make or facilitate loans.

The Articles of Agreement provide that the Bank may lend its own funds,[31] it may lend funds that it has borrowed in the markets of member countries; and it may guarantee loans made through the usual investment channels.[32] The amount that may thus be made available to member countries through the Bank's loans and

[31] But the Articles of Agreement provide that before it can lend the currency received from a member in payment on its subscription, the Bank must have the approval of the member concerned. See Art. 2, sec. 7 (i), Art. 4, sec. 2 (a).

[32] The Bank may borrow funds only if it has "the approval of the member in whose market the funds are raised and the member in whose currency the loan is denominated. . . ." Art. 4, sec. 1(b).

guarantees must not at any time exceed the total of its unimpaired subscribed capital plus its reserves and surplus.

As pointed out on p. 197 above the Bank's authorized capital stock is 10 billion dollars, but the total amount now subscribed in less than this—roughly 8.2 billion dollars. Against this there is an operating deficit,[33] scaling down by this amount the upper limit set on the Bank's operations. The governments that hold stock in the Bank have now been called upon to pay 20 per cent of their respective subscriptions.[34] This has furnished the Bank with roughly 1.5 billion dollars of gold and currency combined. The other 80 per cent is subject to call when required to meet obligations of the Bank created by making or participating in direct loans out of the Bank's own or borrowed funds, or by guaranteeing loans made by private investors.[35]

The Bank's ability to meet obligations on the securities it has issued and on securities it has guaranteed is assured by this right to call on its stockholders for additional funds up to the point where they have made full payment of the issue price of the shares they hold.[36] Such calls may be sent out "In cases of default on loans made, participated in, or guaranteed by the Bank," provided the Bank's reserves, surplus, and other capital already available are insufficient for the purpose.[37] Payments "may be made at the option

[33] As of June 30, 1947 this amounted to $1,063,805, offset by $33,425 set aside as a special reserve for meeting certain obligations of the Bank.

[34] Payments aggregating 4.9 million dollars have been postponed by 6 countries, under Art. 2, sec 8, (a) (i) of the Bank's charter which provides that "any original member of the Bank whose metropolitan territory has suffered from enemy occupation or hostilities during the present war shall be granted the right to postpone payment of one-half per cent [of its gold and dollar subscription] until 5 years after [the date fixed for payment]."

[35] The same, Art 2, sec 5; Art. 4, sec 1 (a) (ii) and (iii).

[36] "Liability on shares shall be limited to the unpaid portion of the issue price of the shares" The same, Art. 2, sec. 6

[37] ". . . the Bank may call an additional amount of such unpaid subscriptions not to exceed in any year one percent of the total subscriptions of the members for the following purposes. (i) To redeem prior to maturity, or otherwise discharge its liability on, all or part of the outstanding principal of any loan guaranteed by it in respect of which the debtor is in default. (ii) To repurchase or otherwise discharge its liability on, all or part of its own outstanding borrowings." The same, Art. 4, sec. 7 (c).

of the member either in gold, in United States dollars, or in the currency required to discharge the obligation of the Bank for the purpose for which the call is made."[38] This is expected to obviate foreign exchange difficulties that otherwise might arise in connection with future calls.

The Bank's Articles of Agreement require that the calls on unpaid subscriptions must be "uniform on all shares." That is, all shareholders will be called upon to make the same percentage payment on their respective subscriptions.[39] But ". . . in case some members fail to respond to a call on their subscriptions, the Bank may [according to an opinion of the Bank's counsel] continue to make pro rata calls, up to the full amount of its capital subscribed and unpaid, until the amount received by the Bank is sufficient to meet its obligations for funds borrowed by it or on guarantees made by it."[40] Optimism regarding response to calls is supported by the fact that, except for the intergovernmental debts of World War I, 85 per cent of the Bank's capital represents countries (including the United States) that have never defaulted on their bonded debt.

An important function of the Bank will be to protect the interests of weak borrowers.

The investment character of a foreign loan depends primarily on the borrower's capacity to meet payments on the loan. This in turn depends on the outlook for receipts or earnings in the currency of the borrower's own country, and on the ease with which this domestic currency can be exchanged—directly or indirectly—for the currency in which the debt must be paid. If the borrower is a government, this means that its budgetary position must be reasonably satisfactory, and its economic and political situation relatively stable. If the borrower is a foreign corporation, its earning capacity and also the outlook for transferring payments to the foreign investor must be considered.

[38] The same, Art. 2, sec. 7 (ii).
[39] The same, Art. 2, sec. 5 (ii).
[40] From an address by Eugene Meyer, "The World Bank—Its Aims and Importance," *The Commercial and Financial Chronicle*, Dec. 19, 1946, p. 3229.

Somewhere between loans that would generally be given a high rating and those that promise nothing but default, there are many whose future is clouded by questions that only time can answer. In the past the world's great financial markets have followed a practice of granting many such doubtful loans, but on terms that were burdensome enough to make eventual default practically certain. An effort was made to compensate for high risks by charging high rates of return. This sometimes made default inevitable on loans that otherwise might have paid off. It therefore resulted to the disadvantage of both the borrower and the lender. Problems presented by such prospective loans of somewhat doubtful character were considered at Bretton Woods, and agreements were reached providing safeguards for borrowers with low or relatively low credit ratings.

The Bank may guarantee, in whole or in part, loans made through the ordinary channels of private investment (or may itself make loans) provided certain conditions are met. Among these conditions are the following: The loan project under consideration must be recommended by a competent investigating committee, due regard being given to the probability that interest and amortization charges will be met. However, the loan must be one that, in the opinion of the Bank, could not be floated under prevailing market conditions on terms reasonable for the borrower.[41] It is expected that high-grade loans will continue to be issued through the usual private investment channels.

The Bank's power to make or guarantee loans is restricted to issues for its own members or for borrowers whose payments on principal and interest account are guaranteed by a member. But, the membership group is large enough to include most of the borrowers whose loans, although involving a considerable degree of risk, might be classed as investments.

[41] Art 3, sec. 4 of the Articles of Agreement of the International Bank for Reconstruction and Development.

In the United States many institutional investors are prohibited from purchasing the Bank's securities.

It is expected that eventually the Bank will market its securities in a number of countries. However, a preliminary investigation by the Bank has indicated that for the present most of its funds must be obtained in the United States. The large institutional investors of the United States are expected to furnish the principal market for the Bank's securities. To aid the work of the Bank, some states recently have taken legislative action to permit purchase of its securities by insurance companies and savings banks.[42]

Mutual savings banks, with total assets of about 17 billion dollars, operate in 17 of the 48 states of the union.[43] As of November 1946 the laws of four of these states (having 62 per cent of the total assets of such banks) would permit investment in the Bank's obligations. These are New York, where eligibility legislation was enacted in the spring of 1946, Delaware, Maryland, and, with some restrictions, Pennsylvania.[44] Since then Connecticut has been added to the list.[45] In Wisconsin the State Banking Commission has forbidden state banks and trust companies to invest in any foreign securities.[46]

The commercial banks of the country, with capital and surplus of well over 7 billion dollars, are in general permitted to invest up to 10 per cent of their capital and surplus in securities *of investment quality* of a single issuer. So far as national (commercial) banks are concerned, the Comptroller of the Currency announced

[42] See International Bank, *First Annual Report by the Executive Directors*, Sept 27, 1946, p. 10, for a general description of the situation existing in 1946. For the situation 9 months later, see *Memorandum with Regard to the Legality of Bonds for Investment*, published by the Bank under date of July 14, 1947

[43] The following statements regarding legal eligibility are based on the *Wall Street Journal*, Nov. 13, 1946, p 5, *The Commercial and Financial Chronicle*, Dec. 12, 1946, pp. 3070-71

[44] *Wall Street Journal*, Nov. 13, 1946.

[45] *Memorandum*, published by the Bank, July 14, 1947.

[46] *Wall Street Journal*, Nov. 29, 1946.

on May 29, 1947 that the debentures of the International Bank had been placed on the permitted list.[47] In 12 states no investment in the Bank's securities by state banks is permitted, but these account for only 6 per cent of the total for all commercial banks.

According to the memorandum published by the Bank under date of July 14, 1947, there are ten states whose laws permit purchase of the Bank's securities by insurance companies. These are: Connecticut, Florida, Maine, Maryland, Nebraska, New Hampshire, New Jersey, New York, Pensylvania, and South Carolina. Together the life insurance companies of these states account for almost 72 per cent of the 44.5 billion dollar assets for the country as a whole. In New York permissive legislation was adopted in April 1947. Under the new law a New York life insurance company may invest up to 5 per cent of its admitted assets.

As a member country, the United States shares responsibility for the Bank's policies as they affect investors.

The quality of the securities the Bank offers to investors in the United States and elsewhere will depend on policies adopted with regard to loans. In the first instance the Bank's lending policies are determined by the Articles of Agreement. These prescribe in broad terms the conditions under which loans may be granted or guaranteed. Quite as important will be the decisions reached on many matters of detail as the Bank's lending operations progress. As the Executive Directors point out: ". . . development of definitive policies in substantial detail can only be intelligently undertaken in the light of loan applications which shall be received."[48]

The general provisions covering the granting and use of loans are presented in Article III of the Articles of Agreement. Section 4 of this Article specifies that the Bank may guarantee or make loans to member countries—also to political subdivisions thereof, or to enterprises in the territories of a member—providing the following conditions are met:

[47] Treasury Department press release, May 29, 1947.

[48] International Bank, *First Annual Meeting of the Board of Governors, Proceedings and Related Documents* (Oct. 29, 1946), p. 27.

(1) When the proposed borrower is a political subdivision of a member country, the proposed loan must be fully guaranteed as to principal, interest, and other charges by the member country concerned or by the central bank or some comparable agency of the member which is acceptable to the Bank.

(2) The Bank is satisfied that in the prevailing market conditions the borrower would be unable otherwise to obtain the loan under conditions which in the opinion of the Bank are reasonable for the borrower.

(3) A competent committee has submitted a written report recommending the project after a careful study of its merits. The committee for each project shall include an expert selected by the governor representing the member in whose territory the project is located and one or more members of the technical staff of the Bank.[49]

(4) In the opinion of the Bank the rate of interest and other charges and the schedule for repayment of principal are reasonable and appropriate to the project.

(5) In making or guaranteeing a loan, the Bank shall pay due regard to the prospects that the borrower (or the guarantor) will be in a position to meet its obligations under the loan; and the Bank shall act prudently in the interests both of the particular member in whose territories the project is located and of the members as a whole.

(6) In guaranteeing a loan made by other investors, the Bank shall receive suitable compensation for its risk.

(7) Loans made or guaranteed by the Bank shall, except in special circumstances, be for the purpose of specific projects of reconstruction or development.

Provisions covering the use of loans guaranteed, participated in, or made by the Bank, are set forth in section 5 of Article III:

(1) The Bank shall impose no conditions that the proceeds of a loan shall be spent in the territories of any particular member or members.

(2) The Bank shall make arrangements to ensure that the proceeds of any loan are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations.

(3) In the case of loans made by the Bank, it shall open an account in the name of the borrower and the amount of the loan shall be credited to this account in the currency or currencies in which the loan is made.

[49] The provision regarding membership of the loan committee is from Art. 5, sec. 7.

The borrower shall be permitted by the Bank to draw on this account only to meet expenses in connection with the project as they are actually incurred.

Article IV, section 1 (b) gives members of the Bank control over issues floated in their markets or currencies. This raises questions regarding the aggregate amount that the United States will eventually authorize for issue in dollars and in the United States.

Questions regarding the rate of interest to be charged and the type or types of securities to be issued are not considered in the Articles of Agreement. They are among the details to be decided as the loan policy of the Bank emerges.

At the request of the United States[50] the Bank has officially defined its power so as to include "authority to make or guarantee loans for programs of economic reconstruction and the reconstruction of monetary systems, including long-term stabilization loans."[51] This is interpreted to be an elaboration of the phrase "in special circumstances" which appears in paragraph 7 of section 4, Article III. It gives the Bank wide discretion in passing on loan applications, and thereby adds to its responsibilities. Also, it promises to increase the difficulties of administering provisions in section 5 under which the Bank must "ensure that the proceeds of any loan are used for the purpose for which the loan was granted," and can permit the borrower to draw on its account with the Bank "only to meet expenses in connection with the project as they are actually incurred."

Successful administration of the Bank's lending program will call for careful scrutiny of all loan projects in the light of adequate and pertinent information furnished by the prospective borrower and by the committees appointed to report on the respective projects considered. Once a loan has been made, the Bank must make every effort to assure its servicing. But in doing so it must take care not to infringe the sovereignty of the borrowing country.

[50] Bretton Woods Agreement Act, 59 Stat. 512, sec. 12.

[51] *First Annual Meeting of Board of Governors, Proceedings and Related Documents*, pp. 30, 40, 90.

The fact that the Bank's membership is made up very largely of potential borrowers may make successful administration difficult. The fact that its membership is made up entirely of governments raises a policy problem of importance: whether the Bank will be guided in its decisions solely by the soundness of a proposed loan, or whether questions of international politics will affect its decisions. According to the Articles of Agreement, "The Bank and its officers shall not . . . be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, . . ."[52] The degree of risk affecting the Bank's loans will depend largely on the observance of this requirement.

[52] Art. 4, sec. 10.

CHAPTER XI

THE QUESTION OF DIRECT INVESTMENT BY GOVERNMENT

It is sometimes suggested that the United States government itself should launch a program of developing the natural resources of some foreign countries or areas, or participate with private capital in such developmental enterprises. In many cases proposals of this kind are inspired by generous and unselfish motives—by a wish to improve living standards in foreign countries. Sometimes the purpose in view is to increase the country's available supply of strategic commodities, or to put the government of the United States in active competition with some other government in the development of important natural resources located in a third country. But whatever the motive, proposals for government participation in business enterprises abroad raise questions regarding probable repercussions at home and abroad.

Traditionally the United States government has not made or participated in foreign direct investments.

In the foreign field even more than in the domestic, the United States has consistently favored the private enterprise system. American corporations have been encouraged to develop the agricultural, mineral, and other resources of foreign countries, but the government itself has not taken part in such activities. However, on at least two occasions the United States has faced definite proposals for the organization of a government corporation that would make direct investments abroad. Both of these proposals would have involved the government directly in the production of foreign oil, war experience having strongly emphasized the military importance of oil. Both were rejected.

The first of these proposals to put the United States in the foreign oil business followed soon after the close of World War I. In May 1920 a bill was introduced in the Senate authorizing the

incorporation of a great government enterprise to handle oil exploration and development in foreign countries.[1] This came at a time when American oil companies were faced by restrictions preventing them from operating in many areas controlled by Britain, France, and the Netherlands. At the same time foreign companies were free to exploit American oil resources on an equal footing with American companies. The unfairness of the situation was urgently brought to the attention of the government. While this controversy was in process, the bill in question was introduced but never got beyond the committee stage.

A somewhat similar project was revealed to the country near the end of World War II by Mr. Harold Ickes, then Secretary of the Interior and president of the Petroleum Reserve Corporation (a wartime agency of the government). On February 6, 1944 he announced that this government corporation had agreed to construct, own, and maintain a trunk pipe line system for the transportation of crude petroleum from oil fields in Saudi Arabia and Kuwait to the eastern Mediterranean. The proposal raised a storm of objection, and the following June it was announced that the pipe line had been definitely abandoned as a government project.[2]

Contrary to custom the United States government acquired some foreign properties in World War II.

As part of the war effort, the United States government attempted to provide an adequate supply of "strategic and critical" materials. That is, it undertook to procure an adequate supply of materials that were essential to national defense and had to be obtained in whole or in part from foreign sources. For this purpose,

[1] The bill sponsored by Senator Phelan of California, provided that a majority of the stock should be held by Americans, directors of the company should be appointed by the President of the United States, and preferential rights to any or all of the oil produced should be granted the government. *The Commercial and Financial Chronicle*, May 22, 1920, p. 2146, *American Petroleum Interests in Foreign Countries*, Hearings before a Special Senate Committee Investigating Petroleum Resources, 79 Cong. 1 sess., June 1945, pp. 302-03.

[2] The oil fields in question were under concession to the Arabian American Oil Company, a joint subsidiary of The Texas Company and Standard of California, and Gulf Exploration Co., a subsidiary of the Gulf Oil Corp. *The Commercial and Financial Chronicle*, June 29, 1944, p. 2717; the Petroleum Industry Research Foundation, Inc., *World Oil Facts and Policy*, August 1944, pp. 31-38.

the government gave very substantial assistance to Latin American countries to encourage increased production of rubber, insecticides, fibers, quinine, and a few other commodities. In many cases the United States government furnished a major part of the necessary financing on very generous terms, without acquiring any share in the ownership in the properties concerned. However, there were some exceptions.

Early in March 1943, the government of the United States obtained a twenty-five-year concession from the government of Costa Rica covering 10,000 acres (about 15 square miles) of land. The land was acquired for the cultivation of cinchona trees—whose bark contains quinine, the world's best-known defense against malaria. According to the agreement, all of this acreage will revert to Costa Rica at the end of the 25 years. By that time the concession should have yielded several crops of bark, and new trees should have been planted to replace those destroyed in the process of harvesting.[3]

The United States government also holds title to five farms (27,000 acres in all), acquired for growing hemp after the attack on Pearl Harbor imperiled our source of supply in the Pacific area. Two of the farms are in Costa Rica, and one each in Honduras, Guatemala, and Panama. The RFC owns the land and pays all costs of operation, while the United Fruit Company manages the plantations. Early in 1947 it was reported that the government would continue to hold the land "at least until December 31, 1948" when the contracts with United Fruit expire. It is also indicated that the government would be "happy to sell immediately" if it could recover costs and be sure that the hemp produced would continue to come to this country. But buyers have not been interested.[4]

The government made certain wartime investments for the purpose of expanding the available supply of strategic minerals.

[3] Charles Morrow Wilson, "Quinine—Reborn in our Hemisphere," *Harper's Magazine*, August 1943, pp 275-80. The plantations of Java—whose large production was controlled by the Japanese during the war—usually operate on a rotation schedule, a certain percentage of the trees being cut each year. Harvesting begins when the trees are 4 or 5 years old.

[4] *Wall Street Journal*, Jan. 9, 1947.

The RFC, acting through the medium of a Cuban corporation, built a 21 million-dollar nickel refinery in Cuba and also met operating costs. The plant was leased to and operated by the Freeport Sulphur Company until operations were discontinued early in 1947, and the plant was declared surplus and offered for sale. But it was still government-owned in May 1948. A million-dollar plant for refining vanadium was built by the government in Peru, was operated by the Vanadium Corporation during the war, and was sold to that corporation after the close of the war. Government-owned machinery and equipment was furnished on lease to the St. Lawrence Corporation in Newfoundland and at the end of the war was sold to that corporation. Government-owned machinery, equipment, and other facilities for plant expansion were furnished the Chile Exploration Corporation, a subsidiary of Anaconda, and in this case the property is still government-owned and the lease is still active. To summarize, the government's four wartime mineral investments were all operated by private corporations. Two of them have now been sold, one is inactive and offered for sale, and the other is still in operation on lease to a private corporation.

The reader may recall that during and since the war the government of the United States acquired naval and air bases in many parts of the world and has made arrangements to retain some of these. For example, it has relinquished control over air bases and radio stations in French North Africa and an air base in Cairo, Egypt. But it maintains control over the bases acquired from Britain on a 99-year lease, and also an air base in the Saudi-Arabian oil fields where the United States navy is the principal purchaser of oil.[5] It has also bought or contracted to buy a number of new sites and buildings to be used for embassy and legation purposes. But properties used in noncommercial services of a government—like the properties used for eleemosynary and philanthropic purposes by schools, churches, and hospitals—are not "direct investments" according to the conventional definition of the term. Assets

[5] *World Report*, Feb 11, 1947, p. 12.

of this kind are not operated for the sake of expected profits and therefore are not under discussion in this chapter.

Government investment in the resources of foreign countries may breed suspicion and open hostility.

Experience shows that development of a country's resources by a large and powerful foreign company is likely to inspire suspicion and fear—fear that in the end the development of natural resources may prove an entering wedge for political interference. This feeling is given expression in rules and regulations that obstruct or control the activities of foreign companies—discussed in Chapter VII above. But if the foreign company is one in which a foreign government holds a controlling interest, it is not likely to obtain a concession to operate in countries enjoying full political independence. It is true that Anglo-Iranian Oil is an oil-producing company that operates in a foreign country in spite of the fact that its majority stockholder is the British government. But at the time the House of Commons voted to purchase shares in this company (July 1913), a large part of Persia was recognized as being within the British sphere of influence, and Persia was not in a strong enough position to resist the action taken by Britain. But Britain's action aroused considerable hostility. In the words of two British writers, the government's participation in the production of foreign oil ". . . meant pitting the British State against the nationals of other states, not only in producing but in consuming countries."[6]

The right to develop a business enterprise in a foreign country is derived from the government of the country by a special grant called a concession. This grant puts many obligations on the concessionaire and specifies what limits are set on the rights granted. It also involves commitments to the government granting the concession. These may even include a commitment to aid in preserving the ruling regime—a promise that could prove embarrassing to the concessionaire and detrimental to the country granting the concession.

[6] E. H. Davenport and Sidney Russell Cooke, *The Oil Trusts and Anglo-American Relations* (1923), p. 187.

There may be, and often are, differences of opinion as to whether terms of a concession are being carried out. Disagreements arise over taxes, labor problems, royalty payments, and other matters. Day-to-day bargaining relations of this kind are awkward and make it difficult to operate in a friendly spirit if the concessionaire is a government, particularly if it is a powerful government able to enforce its contentions with armed force.

The attitude of nations able to grant privileges to develop important natural resources is indicated by the oil concession in Saudi-Arabia. This important concession was granted to the Arabian-American Oil Company in 1933, although this private American company offered less than the government-controlled Japanese and German companies that were competing for it. King Ibn Saud is quoted as saying on this occasion ". . . that he was glad to make an agreement with a company which would not involve itself in the complicated politics of the Middle East but would carry out its commercial mission of exploring for and developing oil fields."[7]

The hostility of the Panamian government and people toward the business activities of the United States government in the Canal Zone furnishes another example of the friction that may be engendered by a government-controlled enterprise that competes directly with foreign private enterprise. Whether United States government ownership of the Panama Canal and Railway represents a foreign or domestic investment by the government of the United States is open to debate, however. The answer depends on the interpretation given the treaty of 1903 under which the Canal Zone came under the control of the United States. The United States claims that through this treaty it acquired a cession of sovereignty, but Panama disputes the claim.[8]

By the treaty, the Panama Railway is authorized to operate commissaries in the Canal Zone, and to sell "everything necessary and

[7] *Investigation of Petroleum Resources in Relation to the National Welfare*, Final Report of the Special Committee Investigating Petroleum Resources, 80 Cong. 1 sess., January 1947, p. 12n; *American Petroleum Interests in Foreign Countries*, Hearings before the same committee, 79 Cong 1 sess, pp 24, 319.

[8] Benjamin H. Williams, *Economic Foreign Policy of the United States* (1929), pp. 318-20.

convenient for operation, maintenance and defense of the Canal." These goods come in duty-free. In addition the Railway Company gets a 25 per cent rebate on shipping charges from the United States, pays no rent for the space occupied by its vast "department stores," no insurance, and no taxes. This means that commissary goods can be, and are, priced much lower than those offered by Panama merchants just outside the Zone—in fact below current prices in the United States. Moreover, the "necessary and convenient" clause in the treaty is interpreted to include a very wide range of consumer goods, including luxury items as well as staple commodities.

The privilege of buying at the commissary is limited by law to Canal and Railway employees, but evasion of the rule is not difficult. There are few lines of goods in which Panama merchants can compete on equal terms. A treaty was negotiated to eliminate this source of international difficulty— ratified by the United States in 1936. Apparently, however, the difficulty still exists. Panama merchants continue to voice their protests against the competition they face from commissaries operated by the Panama Railway—an enterprise controlled by the government of the United States.[9]

Some countries prohibit by law direct investment by a company that is controlled by a foreign government.

That a government-controlled corporation is likely to be looked upon with suspicion when negotiating for foreign concessions was pointed out by Bainbridge Colby, Secretary of State, when Senator Phelan's bill authorizing formation of the United States Oil Corporation was before the Senate. According to reports, Secretary Colby also called Phelan's attention to the fact that foreign nations might refuse the proposed corporation the right to carry on business.[10]

Mexico, Venezuela, and Colombia are some of the countries that have passed laws barring the entry of a company controlled by a

[9] *Encyclopaedia Britannica,* 1946 ed., Vol. 17, p. 170, Scott Seegers, "The World's Best Set-Up," *The Inter-American,* August 1946, pp. 12-14, 32.

[10] *American Petroleum Interests in Foreign Countries,* Hearings, p. 303.

foreign government. Colombia's law was invoked in 1927, when the Anglo-Persian Oil Company—controlled by the British government through ownership of 56 per cent of the company's shares—undertook to get a large concession in that country. A representative of the company went to Colombia to make the necessary arrangements. The proposed grant was vigorously and successfully opposed by certain Colombian citizens on the ground that the country's constitution and laws prohibited any foreign government from direct or indirect acquisition of such rights.[11]

In summary, government-owned direct investments abroad are in conflict with traditional American principles. They threaten possible, if not actual, infringement of the sovereignty of other governments and are likely to result in disagreements and bad feelings. They place a mark of colonial status on the receiving country. Governments that enjoy a full measure of political independence have erected legal barriers against the entry of enterprises owned or controlled by a foreign government. In colonial areas direct investments by the government of the United States, or of any other foreign country, would be frowned upon by the empire power concerned. If our government undertakes to help foreigners develop their resources it may choose one of two methods: it may arrange a loan to cover the expenditures involved, or it may furnish aid on a gift basis.

[11] Ludwell Denny, *We Fight for Oil* (1928), pp. 121-30, 135-38.

CHAPTER XII

A CODE AND COURT FOR INTERNATIONAL INVESTMENTS

Revival of the flow of private capital between countries is a problem that has been studied by governments, by the old League of Nations and the present United Nations, and by such bodies as the International Chamber of Commerce, the National Association of Manufacturers, and the National Foreign Trade Council. It is generally agreed that something should be done to clear away the many obstacles which discourage direct investment in foreign countries. A method proposed for accomplishing this end is the formulation and adoption of a code of "fair practices" for international investments, with provision made for the settlement of disputes.

I. DIVERGENT VIEWPOINTS

The need for an international investment code and machinery for its interpretation and enforcement appears to be generally recognized. But the immediate purpose of such a code, and therefore its content, is a question on which divergent views have been expressed by representatives of countries with capital available for investment abroad and countries contemplating receipt of such capital. Prospective recipients of foreign capital stress the need for getting that capital without fear of exploitation or infringement of sovereignty, and on as favorable terms as possible. Prospective investors, on the other hand, are primarily interested in improving conditions that affect the safety of their investments and the outlook for uninterrupted debt service, or payment of dividends or profits. Both groups see the proposed code as an instrument whose principal purpose should be the protection of their interests.

The less developed areas emphasize the danger that the economically more developed countries may regard industrially backward regions as fields for economic and political exploitation, and

they insist that a heavy obligation rests on the industrially advanced nations to aid "the economic development of under-industrialized regions."[1] Accordingly, they favor an international code relating to foreign investments. This code would have the two-fold purpose of encouraging foreign investment on the one hand and eliminating its possible abuses on the other.

Excerpts from the draft of "A Proposed Foreign Economic Policy for the United States," adopted by one of the leading trade associations of the country, emphasizes the objectives deemed important by investing countries.[2]

> . . . the fostering of a free and unrestricted flow of capital and earnings internationally; the encouragement and protection of direct investments in foreign lands, with specific provision against expropriation without due compensation and against discrimination in any form, and with adequate protection of proprietary rights; . . . the discouragement of laws requiring the participation of local capital in enterprises conducted abroad, or restricting the entrance and employment of necessary technical and administrative personnel; the avoidance of international double taxation and discriminatory tax practices; and the facilitation of international travel, specifically for commercial purposes . . . should be dealt with constructively, not only in Treaties of Friendship and Commerce entered into with individual countries, but also in an International Code of Fair Practices and Business Ethics, either incorporated in the Charter for an International Trade Organization as finally adopted, or standing on its own.
>
> . . . .
>
> Our foreign economic policy . . . will insist, specifically, . . . upon provision to the enterprises represented of equal opportunity to compete with local enterprises, without regard to the participation or non-participation in such American enterprises of local capital. . . .

Here the "abuses of international investment" are seen to result mainly from the discriminatory and restrictive laws and courses of action adopted by the governments of capital-receiving countries, and it is insisted that these governments should give imported

[1] See United Nations, Economic and Social Council, "Memorandum Submitted by the Chinese Delegation Regarding the Terms of Reference of the Sub-Commission on Economic Development," E/107 Revised, dated Sept. 30, 1946

[2] National Foreign Trade Council, Inc., *Report of the Thirty-Third National Foreign Trade Convention*, November 1946, pp. xii, xvi.

foreign capital equality of opportunity with capital of national origin.

Boiled down to essentials, the principal reason for the present impasse in foreign investment is the borrower's fear of exploitation, and the investor's fear of loss through expropriation or default. Both can cite cases that support their contentions. There is reason to believe that each group is well aware of the need for making concessions to the other. The difficulty is to frame a document and set up a method of enforcement that will give general effect to the concessions that each one is quite ready to make in particular cases.

II. A CODE OF FAIR PRACTICES

In order to be fully effective, a code of fair practices should be made the object of an international convention signed by a majority of the states interested in private capital investment across international boundaries. To gain general adherence, it will have to take account of the interests of countries that are importers of capital and also those that export capital. It will need to cover both fixed-interest and direct investments. Its development will require the co-operative effort of the nations. Various practices that now restrict the international flow of capital have been reviewed in Chapter VII; and some suggestions regarding the content of a code intended to aid in the removal of these obstacles will be presented here.

The concept of mutual benefit is of basic importance in international investment.

To be economically sound a foreign investment should benefit the receiving country and also the foreigners who supply the capital. It should add to the productive wealth of the receiving country and provide income necessary for compensating the foreign investor, and it should directly or indirectly enable the receiving country to provide the foreign exchange required for transferring payment of interest and amortization charges, or dividends and profits.

The foreign exchange problem presents little if any difficulty in the case of loans to or direct investments in enterprises producing

for outside markets. But foreign loans and foreign-owned enterprises that do not produce for export may constitute a burden on the balance of payments position of the receiving country unless they contribute in one way or another to the increase of exports or the decrease of imports—of goods and services. These observations indicate the need for: (1) very careful appraisal of the economic and financial condition of the borrowing country and its political, legal, and administrative organization; (2) some flexibility in the loan contract to ease the debtor's burden in case a shortage of foreign exchange threatens; and (3) adoption by the investing countries of a public policy with regard to importation of goods and services consistent with their foreign investment policies.

Equal treatment for foreign investors and nationals of capital-receiving countries is desired by both groups.

Equality of treatment is likely to be interpreted differently by investors and recipients of foreign capital. According to those in control of business enterprises operating abroad, rules to assure equality of treatment should be somewhat as follows:[3]

1. Foreigners should enjoy the same inviolability of their person as nationals, along with the same non-political rights.

2. Nondiscrimination must be applied in good faith; there should be no apparently general laws that apply in fact only to foreigners.

3. Foreigners must have the same right and capacity as nationals to enter into contracts on their own behalf or for the account of another, to repurchase, lease, inherit, hold, use, transfer and convey personal and real property [providing this does not threaten national security] and to appear as plaintiff before the domestic courts.

4. Restrictions on foreigners for reasons of national security must not become disguised protection to private domestic interests. Government should permit leases and concessions, management contracts, and other special arrangements.[4]

[3] Nos. 1-8 are quoted from United States Associates, International Chamber of Commerce, *Report of Committee on the Flow of Capital*, October 1946, pp. 26-27; No. 9 is from International Chamber of Commerce, *Foreign Investments and Economic Expansion*, Brochure No. 107, March 1947, p. 21, item j.

[4] This probably would be rejected by Sweden and other countries not eager for foreign development.

5. The burden of taxation must be equitably apportioned. Discriminatory, extra-territorial, and double taxation of foreigners should be avoided.

6. Nondiscriminatory practice should apply to the treatment of labor by domestic and foreign concerns and in general to the employment of foreigners and nationals; *i.e.*, to the employment of foreign and local labor, technicians, and executives.

7. The status of foreign firms should be similar to that granted to domestic firms:

a. the accounts of a foreign branch showing transactions with the rest of the enterprise should be kept in the same form as that adopted for transactions with separate firms;

b. resident manager should be given sufficient discretion to conduct business;

c. the legal status of the subsidiary corporation as a separate entity from its foreign parent should be fully recognized in all business, judicial, and tax matters, subject to legal remedy in case of illegitimate transactions.

8. Special laws regarding the proportion of nationals in any business association, the proportion of capital to be subscribed by nationals, and the minimum number of seats on boards of directors to be held by nationals, are other instances of discrimination, and should be removed.

9. Where policies of nationalization are adopted by a capital-importing country the properties of foreign investors should not be nationalized without due process of law and they should be guaranteed a fair compensation for their nationalized properties. This compensation should be paid in cash and be freely transferable within a reasonable time.

Capital-receiving countries would not subscribe to all of these proposed rules and would add others to the list to attain real equality of treatment as they see it. In particular, many of them would:[5]

1. Object to inclusion of item 6, on the ground that "foreign technicians and technical men have a moral obligation [which should be made a legal obligation] to train nationals so that they may succeed them when their capacities are adequate."

2. Argue that when foreign companies fail to grant opportunities of employment to domestic executives or professional men or to domestic

[5] Based on League of Nations, *Conditions of Private Foreign Investment* (1946), pp. 17, 29; *International Trade Organization*, Hearings before the Senate Finance Committee, 80 Cong. 1 sess., 971, sec. 4.

labor, they themselves infringe upon the principle of equality of opportunity.

3. Object to item 8, and insist on the participation of local capital in the ownership and management of a foreign enterprise, even though this might mean that the inflow of capital would be reduced.

4. Insist that foreigners comply with the domestic laws of the country in which they do business and seek no illegal favor or undue advantage from public officials.

"Points of detail" are the subject of various other suggestions for the drafting of an investment code.

In the *Report* submitted to the League of Nations in 1939 by the Committee for the Study of International Loan Contracts, possible ways of improving the loan contracts were considered under four main titles. Below are given the principal suggestions made:

1. *Drafting of loan documents.* It was pointed out that it would be impracticable to formulate a single, standard form of loan document but that all documents should be "simple, unambiguous, and not unnecessarily prolix." However, it was stated that in the decade of the thirties the number of defaults attributable to faulty, legal provisions was exceedingly small.

2. *Monetary clauses.* The Committee recommended:

a. Where loans carry a currency option (conferring on the holder the right to choose the currency of payment when each payment falls due), each bond and every coupon should specify the choice of currency available to the holder and the number of units of each currency he might receive.

b. In case a gold clause should be written into loan contracts in the future ". . . holders should only be entitled to demand payment of the equivalent of the given weight of gold if the result of such payment represents for them . . . a premium exceeding a given percentage, say 5 per cent."

3. *Functions for the service of the loan.* The Committee defined the various agencies concerned with the execution of the loan contract, namely, the paying agent, the trustees, and representatives of the bondholders. It considered the functions of these agencies, and offered some advice regarding their appointment.

4. *Settlement of legal disputes.* The Committee stated: "What is needed . . . is the greater certainty of the proper law and jurisdiction to be applied," and concluded that "Most of the legal disputes actually encountered could, no doubt, have been easily settled, if it had been possible to lay them before a tribunal previously accepted by the parties." This led the Committee to recommend strongly ". . . that loan contracts should in all cases include at least a clause providing for arbitration on matters of interpretation of the contract."

In a concluding paragraph the League Committee regretfully indicated that the suggested arbitration clause is a stop-gap that does not offer a satisfactory solution of the legal difficulties pertaining to international loans. Like many who are studying the question today in the broader field of both loans and direct investments, it concluded that disputes regarding the interpretation of international loan contracts and other investment contracts should be taken out of the field of national law by international convention under which states would undertake to set up an international loans tribunal whose authority would extend to international investments of all kinds.

III. AN INTERNATIONAL COURT OF ARBITRATION[6]

To give the proposed investment code the force of law, provision should be made for obligatory arbitration of disputes arising under investment contracts. Such a course has long been favored by some borrowing countries as preferable to the forceful measures that have sometimes been taken by powerful lending countries. It also finds favor with the private investor. Under present conditions, he is faced with uncertainty regarding "the proper law of the contract," and with the prospect that, if a dispute arises, his case probably would have to be fought through the courts of the respondent country and all local remedies exhausted before his own government could intervene in his behalf.

[6] This section is based principally on League of Nations, *Report of the Committee for the Study of International Loan Contracts* (1939), pp. 24-27; Manley O. Hudson, *International Tribunals* (1944), pp. 187-212, United States Associates, International Chamber of Commerce, *Report of the Committee on the Flow of Capital,* pp 25-26, 28; International Chamber of Commerce, *Brochure No. 107,* pp. 19-22.

However, the obligation to arbitrate is not sufficient. The protection it gives the parties to an international investment contract is likely to prove illusory unless the contract confers jurisdiction on a particular tribunal. This is because the complainant may not be able to get real collaboration from the respondent state in arranging settlement of a dispute. To avoid a possible stalemate of this kind, each investment contract should carry a clause stipulating the particular tribunal that would have jurisdiction in case of disputes. But this raises a new difficulty. The International Court of Justice can act only in disputes between States and, in general, there is no international tribunal open to bondholders or to other private investors or their representatives. Alternative ways of providing for the adjudication of disputes have been suggested.

The simpler but less satisfactory method proposed for providing an arbitral tribunal is as follows: The International Court of Justice would choose a standing panel of nine persons, who would have a fixed term of office, say five years, and be eligible for reappointment. From this panel the president of the International Court would nominate three persons to constitute a "tribunal" to determine and declare the rights and obligations of the parties to a contract in dispute. Such a tribunal would be appointed at the request of the debtor government, or "any bondholder or bondholders in possession of securities not less than 10 per cent of the amount outstanding," or anyone with authority to act for the bondholders, in case of a loans dispute. Similar arrangements would be made with regard to direct investments.

The preferred solution would be provided for in the proposed fair practices code (that is, by an article or articles legally binding on code signatories). Under such a code agreement "States would undertake to set up an International Loans Tribunal, which would be a single Tribunal with competence extending to all international loans," and would provide a similar body for dealing with the separate problems pertaining to direct investment.

Proponents of the code and court also suggest that each loan contract should make provision for a temporary relaxation of the

conditions of payment in case of transfer emergencies. For this purpose the provisions set forth in the Articles of Agreement of the International Bank (Article IV, section 4c) are taken as a pattern, supplemented by the provision that, in case of an extended default, the debtor's obligations should be subject to review by an "international court of arbitration." In administering this and other functions assigned to it, the proposed international tribunal, or tribunals, would work in close co-operation with the International Monetary Fund and the International Bank—organizations in a position to aid in the analysis of problems likely to be the subject of dispute.

IV. THE INTERNATIONAL TRADE ORGANIZATION CHARTER

The beginnings of an international investment code of fair practices have been included in the charter for the International Trade Organization of the United Nations. This charter was signed March 24, 1948 by representatives of 53 of the 56 nations that participated in the Havana conference.[7] Argentina and Poland refused to sign, and Turkey had not yet signed on August 2, 1948. This document—which is the result of three years of negotiation—will not become effective until it has been ratified by at least 20 of the signatory governments. Meantime, an interim commission has been set up, is choosing its staff, and is moving to Geneva where the Organization may eventually be housed.

By far the greater part of the charter is concerned with problems of international trade. However, one of the stated objectives of the Organization is ". . . to encourage the international flow of capital for productive investment." (Article 1, section 2.) Accordingly, part of one chapter (III) is devoted to the need for and ways of encouraging international co-operation and providing "capital funds, materials, modern equipment and technology and technical and managerial skills" for industrial and general economic development. Another chapter (VIII) outlines the procedures to be followed in case of "differences arising out of the operation" of the charter.

Provisions of the charter regarding the international flow of capital may be grouped as follows: (1) provisions setting forth the

[7] The conference was called by the United Nations Economic and Social Council.

rights of members with regard to foreign investment in their respective territories; (2) provisions intended to encourage capital—in the form of funds, materials, equipment, and also the know-how of modern industry—to venture abroad; (3) provisions for further consideration of the problem of foreign investment.

Under the charter, some far-reaching rights are conceded to capital-receiving countries.

The charter cautions the capital-receiving countries that foreign capital is useful, and that they can offer conditions encouraging its inflow. The relevant provisions—from Article 12, section 1 follow.

1. The Members recognize that:
   (a) international investment, both public and private, can be of great value in promoting economic development and reconstruction, and consequent social progress;
   (b) the international flow of capital will be stimulated to the extent that Members afford nationals of other countries opportunities for investment and security for existing and future investments.

Having thus warned the capital-receiving countries of the advisability of affording good treatment to foreign capital, the charter then states what rights these countries have over the foreign investments, existing and future, within their borders. According to these provisions—Article 12, section 1(c)—a member has the right:

(i) to take any appropriate safeguards necessary to ensure that foreign investment is not used as a basis for interference in its internal affairs or national policies;
(ii) to determine whether and to what extent and upon what terms it will allow future foreign investment,
(iii) to prescribe and give effect on just terms to requirements as to the ownership of existing and future investments;
(iv) to prescribe and give effect to other reasonable requirements with respect to existing and future investments.

The third and fourth of these clauses call for clarification. This is because the words "just" and "reasonable" are not likely to convey the same meaning to capital-exporting and capital-receiving countries. For example, in a preliminary draft the charter required that "just compensation" must be paid to the foreign owners of

expropriated property. This provision carried a footnote that defined "just compensation" to mean payment in the currency of the expropriating country, with the further provision that the expropriating government would determine the extent to which such payment might be transferred into other currencies. This was clearly an expression of the viewpoint of many capital-receiving countries and was in direct contradiction with the view held by capital-exporting countries. The latter view was set forth by Secretary of State Hull July 21, 1938 in a note to the Mexican ambassador in Washington as follows:[8]

> If it were permissible for a government to take the private property of the citizens of other countries and pay for it as and when, in the judgment of that government, its economic circumstances and its local legislation may perhaps permit, the safeguards which the constitutions of most countries and established international law have sought to provide would be illusory. . . . we cannot admit that a foreign government may take the property of American nationals in disregard of the rule of compensation under international law. . . .

Unless the rights of the capital-receiving countries are more clearly defined and limited, these provisions of the charter are certain to be the cause of international misunderstanding and disagreement. The alternative to a general clarification in an amendment to the charter itself is the possibility of unilateral or multilateral treaties between members, as proposed in Article 12, section 1(d).

The charter actually gives little encouragement to foreign capital.

At a certain stage in the writing of the charter it was urged that a provision should be included making it a crime for any nation to discourage investors from sending their capital abroad, even to a country whose history shows expropriation of foreign property without compensation. This was voted down, but traces of the spirit

[8] Excerpt from letter quoted by Green Haywood Hackworth, *Digest of International Law*, Vol. 3 (1942), p. 656. On "good payment" see also Charles P. Howland, *Survey of American Foreign Relations* (1931), p. 108, Charles Cheney Hyde, *International Law Chiefly as Applied and Interpreted by the United States*, Vol. 1 (1945), pp. 717-20.

of coercion that motivated that suggestion are to be found in Article 11, section 1 of the charter. This is given below in abbreviated form.

> 1. . . . in order to stimulate and assist in the provision and exchange of [adequate supplies of capital funds, materials, modern equipment and technology . . .]:
>
> (a) . . . Members shall not impose unreasonable or unjustifiable impediments that would prevent other Members from obtaining on equitable terms any such facilities for their economic development or . . . for their reconstruction.

The guarded promises of security that the charter offers to foreign capital are as follows:

> . . . no Member shall take unreasonable or unjustifiable action within its territory injurious to the rights or interests of nationals of other Members in the enterprise, skills, capital, arts or technology which they have supplied. [Article 11, section 1(b)]

Members undertake:

> . . . to provide reasonable opportunities for investments acceptable to them and adequate security for existing and future investments. [Article 12, section 2(a) (i)]
>
> . . . to give due regard to the desirability of avoiding discrimination as between foreign investments; [Article 12, section 2(a) (ii)]
>
> Members shall promote co-operation between national and foreign enterprises or investors for the purpose of fostering economic development or reconstruction in cases where such co-operation appears to the Members concerned to be appropriate. (Article 12, section 3)

These provisions fall far short of assuring capital that it will receive equality of treatment while operating abroad, and that in case of nationalization it will receive fair compensation in cash freely transferable. That is, they fall far short of meeting the minimum terms on which private capital is likely to risk investment in enterprises promoting the "economic development and reconstruction of foreign countries."

The charter provides for future action by the ITO regarding foreign investment.

Charter provisions regarding international investment clearly are the result of compromise, with large concessions made to the

capital-receiving countries. Recognizing the fact that it does not offer the security that investors will require, the charter provides for future collaboration between the ITO and other intergovernmental organizations in promoting agreements regarding the treatment of foreign investment. (Article 11, section 2.)

Provision is also specifically made in Article 101 for a review of the charter five years after it is put in force and, in Articles 100 and 101, for amendments to the charter.

Provision is made for the settlement of disputes between members of the Organization.

Members are bound by Article 92 to utilize the procedures provided by the charter for settling disputes that may arise with other members. These procedures are as follows: (1) The case may be submitted to arbitration; (2) if satisfactory settlement is not reached in that way, it may be referred to the executive board; (3) it may be referred to the "Conference"—a body made up of one representative for each member. Finally, any decision of the Conference may be submitted to the International Court of Justice for an advisory opinion.

V. ECONOMIC AGREEMENT OF BOGOTA[9]

At the Ninth International Conference of American States—held in Bogota, Colombia in April 1948—a new economic agreement was drafted. It was signed by representatives of 20 of the American republics, but the delegates for some countries signed with reservations. It will come into effect among the ratifying states when two thirds of the signatory states have ratified. Like the ITO charter, this agreement marks another step in the development of an international investment code. One chapter of the agreement and parts of two other chapters deal directly with investment problems.

The agreement provides for continued intergovernmental lending.

Chapter III of the agreement, entitled "fiancial cooperation" contains two articles dealing with future intergovernmental lending:

[9] See Henry Chalmers, "The Economic Agreement of Bogota: An Inter-American Milestone," *Foreign Commerce Weekly*, June 12, 1948, p. 3.

Article 18, which provides for reciprocal financial co-operation among the states, emphasizes the obligation of each country to mobilize its own resources for developmental purposes.

Under Article 20 the states agree to complement the flow of private investments by the continued extension of medium- and long-term credits to one another through governmental and intergovernmental institutions. They also agree that "a criterion shall be established" for easing the terms of payment of such intergovernmental loans in cases where the debtor countries "suffer an acute shortage of foreign exchange, which prevents them from complying with the terms stipulated in the loan."

Article 21 points out that ". . . in general, international financing should not be sought for the purpose of covering expenditures in local currency." But it continues as follows. ". . . as long as available national savings in local money markets or elsewhere are not sufficient, expenditures in local currency may, in justified circumstances, be considered for [intergovernmental] financing. . . ."

Certain provisions in the agreement would remove some existing obstacles to private investment.

Chapter IV, under the title of "private investments," deals with the principal controversial issues that are obstructing the flow of investment capital to many countries today. The six articles that constitute the chapter are summarized below.

Article 22 points out the importance of private investments and the fact that their flow can be stimulated by the opportunities and the security offered. It then provides that foreign capital shall be given equitable treatment; that the states shall reciprocally grant appropriate facilities and incentives to foreign capital and shall impose no unjustifiable restrictions on the transfer of capital and earnings; and that the states will not set up impediments preventing other states from obtaining capital on equitable terms.

Article 23, after setting forth the principle that international investments should be mutually beneficial, deals with questions of personnel. It advises "just and equitable treatment" of national and foreign personnel and the training of national personnel. It also takes account of the need for employing "a reasonable number

of technical experts and executive personnel, whatever their nationality may be."

Article 24 accepts the doctrine that foreign capital is subject to the national laws of the country in which it is invested—with the guarantees provided in Chapter III, particularly in Article 22. It then affirms the right of countries "within a system of equity and of effective legal and judicial guarantees" to establish: (1) "measures to prevent foreign investments from being utilized directly or indirectly as an instrument for intervening in national politics or for prejudicing the security or fundamental interests of the receiving countries; and (2) standards with respect to the extent, conditions, and terms upon which they will permit future foreign investments.

Article 25 provides that there shall not be discrimination against foreign capital in cases of expropriation, and that "any expropriation shall be accompanied by payment of a fair price in a prompt, adequate and effective manner."

Article 26 declares in favor of "uniform principles of corporate accounting, and of standards of fair disclosure to private investors."

Article 27 calls for the progressive reduction or elimination of double taxation of income from foreign sources and avoidance of burdensome and discriminatory taxation.

The chapter on "social guarantees" includes provisions affecting direct investments.

Article 32, which is the only article in Chapter VII, contains seven sub-paragraphs dealing with relations between workers and employers. These provisions in the main are of local application, but two of them would impose obligations on foreign enterprises. They call for a legal system of paid annual vacations for all workers and permanence of tenure for all wage earners—insuring them against discharge without just cause.

Some of the signatory states filed reservations to specific provisions of the agreement.

Eight countries filed reservations or declarations with regard to Article 25, that deals with the question of expropriation. These

states are Ecuador, Mexico, Argentina, Uruguay, Guatemala, Cuba, Venezuela, Honduras. They hold that the provisions of the agreement should be subordinated to the constitutional laws of each country. It may be pointed out that expropriating countries in the past have all declared their acts to be constitutional. Therefore the effect of these reservations would be to nullify the promise of security offered foreign capital under the agreement. The foreign investor wishing to establish a business or industrial enterprise in one of these eight countries will need to study the laws and the history of the country with regard to expropriation. He also faces the risk that unfavorable amendments may be added to those laws in the future.

Three of the eight countries named above—Ecuador, Mexico, and Guatemala—specified that Article 24 should be clarified to make sure that it will not be interpreted as limiting the principle that the laws and courts of a country have jurisdiction over alien residents as well as nationals. Mexico and Guatemala made a similar reservation with regard to Article 22.

Both Colombia and the United States filed reservations to the two labor provisions of Article 32 that are cited above. The Colombian delegation explained its action in terms of lack of time for studying these provisions rather than a disagreement in principle.

The agreement provides no new machinery for the settlement of disputes.

Under Article 38 the American states agree to "consultations through diplomatic channels" as a means of settling all economic differences and disputes between them. In case a satisfactory solution is not reached, a dispute may be referred to the Council of the Organization of the American States, and the Council will arrange for further discussion. Failing settlement by this means, the agreement provides that the states shall submit the question at issue "to the procedure set forth in the Inter-American Peace System or to other procedures set forth in agreements already in existence or which may be concluded in the future."

In conclusion, the government of the United States has participated in the negotiation of the ITO charter and the Economic Agreement of Bogota, and has assented to many compromise measures. This is also true of other countries that now are, or soon may be, in a position to furnish developmental capital to foreign countries. Prospective recipients of foreign funds have also participated in these negotiations and have made concessions in the interest of clearing away some of the policies and practices that have obstructed the international flow of private capital during the past two decades.

Progress has thus been made. Governments have shown an intention to support and promote international collaboration in a field where such collaboration previously had been lacking. Tentative steps have also been taken toward establishing a procedure for the settlement of disputes. However, certain issues have not been resolved. The outstanding points on which disagreement remains are: (1) The governments of capital-receiving countries would like to have the so-called Calvo clause included in these two documents, but the governments of capital-exporting countries object.[10] The latter continue to insist on their right to intervene in disputes involving gross violation of the rights of one or more of their citizens by a foreign government. (2) The governments of capital-exporting countries have not been able to gain general acceptance of their claim that if foreign-owned properties are expropriated, fair compensation must be paid in cash, transferable within a reasonable time.

So far as the foreign investor is concerned, the lack of agreement regarding "fair compensation" means that these multilateral treaties fail to provide the security he desires. While his government has reserved the right to intervene in his behalf, intervention may be long delayed, particularly in cases where the international political situation might make such intervention appear undesirable. Therefore, he must still rely on his own investigation of conditions, attitudes, laws, and practices in foreign countries. He must inform himself concerning the rules and regulations of provincial and city as well as national governments. He must be sure that his conces-

[10] See p. 181 above.

sion agreement states precisely the terms on which he can take capital into a particular country, operate there, and take out his earnings and also his capital in case of liquidation.

There still remains the possibility that the Bogota agreement may be ratified without reservation by the number of states required to bring it into effect. Judging from reports of the pressures under which the Conference worked during its closing days, it is possible that the reservations and declarations filed by some of the delegates actually were filed as precautionary measures on which their governments will not insist when considering the question of ratification. It is hoped that in this way or by negotiations through diplomatic channels, the number of states ratifying without reservation will be sufficient to put the agreement into effect. If so, a very real step toward the adoption of an investment code of fair practices will have been made by states of the Western Hemisphere.

SUMMARY AND CONCLUSIONS

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American capacity to invest abroad has been amply demonstrated. The last three decades have clearly shown that the United States has great capacity to produce goods and services for export, and also the financial resources for making such exports possible. From January 1941 to the close of 1947 the government of the United States furnished tremendous amounts of goods and services to our allies—free of charge or on credit—for war, reconstruction, and developmental purposes. By the close of 1947 some 63.3 billion dollars of foreign loans, grants, and other financial aid (in excess of repayments) had been provided for such purposes.[1] Passage of the foreign aid bill of April 2, 1948 (covering the first year of the Marshall Plan and other foreign aid) and appropriations to cover the aid furnished by the bill will increase this total to more than 70 billion dollars. This is a sum greater than the aggregate amount of all private long-term foreign investments outstanding prior to World War II.

These loans and contributions represent a maximum effort, for they have been made under the compulsion of war conditions, financed by the use of funds that the government had collected from American taxpayers or borrowed from the American public. In effect, they represent forced lending and forced contributions from the American public, with everyone sharing the costs. Even in wartime such vast sums could not have been provided by private capital in such a short period of time.

Substantial amounts of American exports of all kinds could be supplied in the future on long- or short-term credit or on a direct investment basis provided favorable conditions were offered to investors.

[1] Of this total 6 billions had not yet been spent; almost 39 billions represented wartime lend-lease in excess of repayments and reverse lend-lease.

Capital could be used for reconstruction and developmental purposes in many areas.

So far as undeveloped and underdeveloped resources are concerned, investment opportunities exist in many parts of the world. They may be found in the expansion of agricultural production (for example, of plantation crops, cattle and sheep raising and related industries, and irrigation and drainage projects), in enlarging world output of new and old minerals, and in providing or restoring industrial capacity of many kinds, including transportation facilities, and other public service industries. Moreover, various governments in planning the future development of their countries have announced their intention of enlisting the co-operation of foreign capital.

But lack of paying capacity limits many "borrowers."

Many countries are experiencing balance of payments difficulties resulting from the war. Their means of earning foreign exchange have been reduced because of damage to productive capacity, dislocation of international trade, and loss of productive foreign investments. At the same time accumulation of new foreign obligations has increased the annual payments they must make on interest account. Other areas are suffering from a chronic lack of productive resources. If new investments for such countries are to ease the balance of payments situation and facilitate the transfer of interest or dividends, they must increase productive capacity and thereby increase exports or decrease imports.

Unfavorable conditions affecting foreign capital in some countries hinder its investment.

Nationalistic and discriminatory legislation discourages American and other investors from risking their savings in a number of countries. This includes laws providing for the expropriation of foreign properties without adequate compensation, discriminatory labor laws, inequitable taxation, government competition in industry, and restrictions on the proportion of the capital of any one enterprise that may be foreign. Political and currency instability,

and currency controls have proved costly risks in the past and are likely to be encountered in the future. The continued failure of some governments to meet existing obligations discourages new lending. Other adverse factors affecting foreign investment not considered in this study should be mentioned. Reference is made to unbalanced budgets, disorganized trade and financial relations, tariff barriers and restrictive trade practices.

Most of the unfavorable conditions that now hinder the international flow of capital could be removed or improved by government action. Continued existence of these conditions therefore indicates an unwillingness on the part of the governments concerned to make realistic bids for foreign capital.

Private investments cannot compete with loans and grants from the United States government.

The financial aid now being furnished to other governments by the government of the United States should hasten world recovery and aid in stabilizing economic conditions generally. That is, it should promote conditions that in the long run will encourage private investment. For the present, however, it has the opposite effect.

As long as the government of the United States furnishes loans and grants to foreign countries, the investment opportunities available for private capital are likely to be unimportant. Loans on a business basis cannot compete with gifts—or with government loans furnished on very lenient terms. Government lending disregards many economic factors and may even ignore unsatisfactory political conditions in recipient countries, while the private investor should give such factors careful consideration. In short, government lending is political in character. Private investment usually is and should be economic, designed to benefit both the supplier of the funds and the recipient country.

Other countries are now or soon may be able to compete for investment opportunities.

While the United States government has been the principal source of funds for war, reconstruction, and relief purposes, other

governments have participated. For example, the Canadian government has furnished a total of more than 7 billion dollars to other governments and government organizations of an international character. The Argentine government has extended intergovernmental loans and credits amounting to more than 1 billion dollars. Sweden, Switzerland, the Netherlands, and, in fact, most of the countries of Western Europe have also participated. Britain, formerly the world's principal investor and recently the largest recipient of loans and gifts, has also provided some war and postwar aid for other governments.

Consideration of the balance of payments position of various countries, including some of those named above, indicates capacity to export goods and services on credit. Countries with colonial possessions will probably choose to furnish most of the developmental capital used in those areas, and to discourage the entry of capital from other sources. Other investment opportunities may be shared on a co-operative basis—such as now exists in the development of the oil of the Middle East. In some cases competition for opportunities may develop. On the whole, however, it would appear that the American investment position would be improved by a general resumption of the international flow of investment capital, and particularly by the community of interest that would grow from the co-operation of American with other capital in the development of world resources.

Some types of investment opportunities are more promising than others.

A basic test of the investment character of a project is its capacity to benefit both the receiving country and the investor. Capital provided for the development of natural resources and the establishment of related processing industries in foreign countries can be of great benefit to the recipient country. If the products of these new or expanded industries can compete in world markets, they will furnish the country with additional exports and therefore improve its capacity to pay for increased imports. Investments in industries that produce for the local market may reduce import

requirements, and therefore indirectly provide the increased foreign exchange needed for the transfer of earnings. These developmental industries benefit the receiving country by furnishing employment for native labor and increasing the foreign buying power of the country.

Loans to governments can meet the test of mutual benefits only if the funds provided are used for real economic development. Government borrowing that does not directly or indirectly increase the paying capacity of the country puts an increased burden on the budget and the exchange position of the country, even though it may not end in default. Even loans for productive public works may involve the borrowing country in foreign exchange difficulties in connection with interest and amortization payments. This is because the services produced by the use of the loan may not serve to increase the exports or decrease the imports of the country.

Policies followed by the government of the United States usually favor the export of American capital.

The government of the United States as a rule has not interfered with the rights of foreign governments to decide on the terms they will grant to Americans seeking concessions abroad. Neither will it interfere in ordinary cases where difficulties arise between a foreign government and an American investor. It has intervened when the closed door policy of a government has barred American companies from participating in developmental activities on equal terms with other foreign concessionaires. It has intervened in cases where a foreign state has "grossly violated" the rights of American investors, and where there has been discrimination against American holders of defaulted bonds. The government has also participated in efforts to reach settlement in cases where American property has been expropriated by a foreign government. These efforts have not always given the protection required to prevent real losses on existing investments, but to some extent they have encouraged new ventures abroad.

Through the provisions of the Securities Act of 1933 the government undertakes to protect the private investor against fraudulent

issues of securities (foreign and domestic) and against the suppression of information that the investor would need for evaluating a new issue. It has sometimes taken action to prevent the flotation of particular foreign loans, on the ground that they would conflict with public policy. By participating with other governments in the organization and financing of the International Bank for Reconstruction and Development, the government has also undertaken to encourage private investment abroad.

A generally acceptable code and court for international investments would encourage increased investment.

The need for a code of fair practices for foreign investments is generally recognized. Witness the fact that 56 governments participated in negotiating the charter for the International Trade Organization and in the process devoted a considerable amount of time to the writing of an international investment code. The principal point of disagreement concerns the terms that should be offered foreign capital by underdeveloped countries. These countries desire the machinery and equipment, the scientific knowledge, and the technical skills that foreign capital could provide. But many of them hesitate to offer the security that will encourage investors to accept the other risks involved in sending capital across international boundaries.

The ITO charter and the Bogota agreement represent first steps toward the writing of a code of fair practices. The charter falls considerably short of offering terms that will start the international flow of investment capital. The Bogota agreement, if ratified, would offer the security and the promise of equitable treatment needed to stimulate a resumption of the flow of capital to Latin American countries. However, the fact that the delegations from 10 of the 20 participating countries filed reservations when signing the agreement, raises a question concerning its probable ratification by the necessary number of states. If the necessary number of states do ratify, the Western world will have achieved the writing of an acceptable code of fair practices, and eventually this code might be given wider adherence.

In the absence of a workable code and a court for administering the settlement of disputes the investor must rely on his own investigations and conclusions regarding prospective ventures into the field of foreign investment. Under these conditions some countries would continue to be favored by investors, particularly our neighbor Canada and some European countries with good debt histories. Others would have difficulty in securing the foreign capital they desire.

APPENDIXES

APPENDIX A

INTERNATIONAL BALANCE SHEETS

In Chapter III it was stated that, in the aggregate, the foreign long-term obligations of the countries of the world amounted to some 55 billion dollars in 1938. Or, to look at the other face of the coin, their foreign long-term investments added up to this same total. The creditor countries were named and discussed briefly, and the position of the debtors considered. It is the purpose of the present appendix to furnish the statistical evidence on which these statements and discussions are based.

Content of the appendix. The pages that follow present international balance sheets for practically all countries of the world. The figures cover only long-term items, since short-term data are not available for most countries. However, it is believed that inclusion of the short-term figures would not change the character of the balance sheets presented. For example, inclusion of the short-term items for 1938 would leave Britain and the United States both in the great creditor-nation group, and Germany in the group of large-scale debtors.

The balance sheets show where the investments of each country were placed in 1938, and where the obligations were held. Insofar as possible they also show in detail the nature of the investments, whether (1) *direct* investments, or (2) investments of the *portfolio* type. A similar classification is given for foreign obligations.

To bring these statements within manageable proportions, the classification by types is given in code in the column entitled "Types of Investments" and in the "Remarks" column. The code key is given below.

TYPE OF INVESTMENT—KEY

g Government debt, including government guaranteed
p Portfolio (Department of Commerce definition)
d Direct (Department of Commerce definition)
m Miscellaneous (Department of Commerce definition)
c Corporate (or company) securities—type and nationality of control not shown
s Shares, where nationality of control is not shown
t Total

Summarizing the balance sheets, and preceding them are tables that show (1) each country's investments and debts broken down by large geographic areas (pages 292–97), and (2) the investment and debt position of each continent or large geographic area vis-à-vis every other large world area (pages 296–97), with world totals for these summaries.

In most cases the data given apply specifically to the year 1938. For the sake of completeness, however, it was sometimes necessary to draw on studies for an earlier (or later) year, with allowance made for changes known to have taken place.

Sources of the data. The principal sources from which data for the various countries have been compiled are indicated by code letters in the column entitled "Sources of Data," and by the code key on page 287. Some supplementary references are also given in the "Remarks" column. For one reason or another, many other sources that were consulted in the course of checking and evaluating available data are omitted from our list of references. For example, where there was general agreement among various sources, we have cited only what appeared to be the original source of the data in question.

In general, we have given preference to figures compiled and published by governmental agencies of the various countries, and to some that are generally accepted as semi-official in character though compiled by private agencies. Some of these official and semi-official studies are readily available—notably those for the United States, Canada, and Great Britain. Many of them are brought together in summary form and published annually by the League of Nations in its *Balances of Payments* series.

Much additional material was obtained from unpublished and unofficial reports made available by the Department of Commerce; from the foreign section of *Moody's Governments and Municipals;* from the series of reports that the Department of Overseas Trade (of the United Kingdom) has published under the general title of *Economic and Commercial Conditions;* and from special studies made by various scholars. The last issue of *Kimber's Record of Government Debts,* though it was published in 1934, was helpful as a check against other sources; and the *Compass* financial year books—published for a number of European countries before the outbreak of the present war—provided information regarding the ownership of some foreign companies.

tion, and that many of these lack comparability as regards coverage and definition. Studies made for some countries include loans long in default, while others do not. Some extend the definition of foreign investments to include the investments of foreigners resident within the area studied. Where such discrepancies are apparent, we have included loans in default if they had not been repudiated, and have made corrections to exclude obligations due to resident foreigners. It is probable that some (perhaps many) have not taken account of the difficult problem of repatriated bonds, but in very few cases have we been able to make corrections for such transactions.

Data Sources—Key

A *Moody's Governments and Municipals* (1940).
B The same (1939).
C League of Nations, *Balances of Payments, 1938.*
D The same, *1937.*
E The same, *1936.*
F U. K. Department of Overseas Trade, *Economic and Commercial Conditions,* various countries and years.
G U. S. Department of Commerce, *Foreign Long-Term Investments in the United States, 1937–39.*
H The same, *American Direct Investments in Foreign Countries, 1940* (1940 figures used).
I The same, *Status of United States Investments in Foreign Dollar Bonds, End of 1938* (mimeographed May 1, 1939).
J The same, unpublished and unofficial data.
K Sir Robert Kindersley in *Economic Journal,* December 1937, 1938, 1939.
L *South American Journal.*
M Dominion Bureau of Statistics, *The Canadian Balance of International Payments* (1939), pp 174–77, 180–81.
N *Bulletin de la Statistique Genérále de la France,* No. 3, 1932; No. 3, 1938
O Helmut G. Callis, in *The Annals,* March 1943.
P E. Kann and J Baylin in *Finance and Commerce* (Shanghai 1941); C. F. Remer, *Foreign Investments in China* (1933); Council of Foreign Bondholders', *Report, 1941;* Chang Kia Ngau, *China's Struggle for Railroad Development* (1943), p. 171, recalculated at 1937 exchange rates.
Q *Compass* (1937), *Austria.*
R The same, *Hungary.*
S The same, *Czechoslovakia.*
T Figures for German long-term indebtedness to foreigners, other than United States, are estimates based on totals for the beginning of 1939 (League of Nations, *Balances of Payments 1938,* p. 58), on the 1935 geographic distribution of long-term loans and credits (the same, *1937,* p. 112) and on the 1936 distribution of direct investments (the same, *1936,* p. 122). Figures for the United States are from Department of Commerce reports. In other cases it is assumed that the distribution was proportionally the same in 1939 as in the earlier years. See p. 289 regarding exchange rate used in these calculations.
U *La Grèce et la Crise Mondiale,* Edition de la direction de la Presse Ministère des Affaires Etrangères, Athens (1933), p. 42.
V *Kimber's Record of Government Debts* (1934).
W S. Herbert Frankel, *Capital Investment in Africa* (1938).
X Estimated from various information.
Y *Lend Lease Bill* Hearings on H.R. 1776 before House Committee on Foreign Affairs,

To provide reasonably complete international balance sheets for many countries, it has been necessary to piece together information from many sources. This is because there are not many countries for which we have found studies covering both international assets and liabilities, and there are some for which we have found no data assembled for either side of the account. Where our sources indicated the existence of certain inter-country obligations without showing their amount, suitable entries were made, with three dots in the amounts column. If an estimate for "countries not identified" was available, it was assumed that it covered such three-dot entries. Otherwise these entries indicate that totals given are incomplete, and plus signs are used to call this to the reader's attention.

Method of work. In undertaking the task of compiling international balance sheets for all countries, we turned to double entry bookkeeping for an essential tool. It is readily apparent that if the balance sheet for Country A shows an investment in Country B, then B's balance sheet should show obligations to A of like amount. In the language of the accountant, every credit entry must be offset by a debit of like amount, and vice versa.

Observance of this rule, so far as this was possible, forced upon us a very considerable task of comparing, evaluating, and choosing between discrepant data available from various sources. However, it has made possible the compilation of fairly complete and mutually-consistent statements for practically all countries. The obstacle that has interfered with full observance of the double-entry rule is the item "country not identified" which is found in many accounts. Here, clearly, it was impossible to make the offsetting entry required.

For the world as a whole of course the sum of all international obligations is always equal to the sum of all international investments. The summary table on pages 296–97 shows that our accounts fall short of meeting this test. It also shows that the item "country not identified" is responsible for the major part of the difference. A minor discrepancy results from our inability to choose between conflicting figures regarding United States investments in Austria and Poland, drawn from three official, over-all studies. Reference to these studies shows that the Department of Commerce put United States investments in Austria at 15.9 million dollars, and in Poland at 79.2 millions. But Austria reported 42.5

million dollars of obligations to the United States, and Poland 171.2 millions. The discrepancies noted are so wide that an arbitrary choice of one figure or the other for both accounts involved would have destroyed the comparability of the series in which the substitution was made. Therefore, it seemed best to record the figures as reported by the respective governments, noting the alternative figure in the remarks column. In practically all other cases, the complete and detailed Department of Commerce figures on American investments abroad have been used in compiling balance sheets for foreign countries. That is, they have been used for entries showing foreign obligations to the United States.

Foreign currencies and exchange rates. Where source data were given in terms of foreign currencies, we have converted to dollars at the average rates of exchange given below. Since 1938 was a year of many sharp changes in exchange rates, figures for 1937 were used in preference to 1938.

EXCHANGE RATES—IN U. S. DOLLARS[a]

Country	Unit	Average 1937	December 1937	Country	Unit	Average 1937	December 1937
Albania	frank		$.327	Iran	rial		$ 062
Argentina	peso	$ 33		Italy	lira	$ .053	
Australia	A £	3 939		Japan	yen	.288	
Austria	schilling	.188		Latvia	lat		198
Belgium[b]	belga	.169		Lithuania	litas		169
Bolivia[c]	boliviano		.050	Luxemburg	franc		.043
Brazil	milreis	062		Malaya, British	Singapore $		586
Bulgaria	lev	.013		Mexico	peso	.278	
Canada	C $	1.00		Netherlands	guilder	.550	
Chile[d]	peso	04		New Zealand	NZ £	3.969	
China	national $	.296		Norway	krone	.248	
Colombia	peso	567		Peru	sol		.245
Costa Rica	colon		178	Philippine Islands	peso		502
Cuba	peso		999	Poland	zloty	.189	
Czechoslovakia	koruna	035		Portugal	escudo	.045	
Danzig	guilder		.190	Romania	leu	.007	
Denmark	krone	.221		Salvador	colon	.400	
Ecuador[c]	sucre		.072	Siam	baht		.458
Egypt	E £	5 069		Spain	peseta	.061	
Estonia[e]	kroon		.277	Sweden	krona	.255	
Finland	markka	.022		Switzerland	franc	.229	
France	franc	.040		Turkey	£ T		.800
Germany	reichsmark	402		Union of South Africa	SA £	4.896	
Greece	drachma	009		United Kingdom[f]	£	5.00	
Hong Kong	HK $	.307		Uruguay[g]	peso	.54	
Hungary	pengo	.198		Venezuela	bolivar		.309
India	rupee	373		Yugoslavia	dinar	.023	

[a] Average rates are from the *Federal Reserve Bulletin*, December rates are from the League of Nations *Statistical Yearbook, 1940/41*

[b] The belga is equal to five Belgian francs Therefore the franc had an average value of $.034 in 1937

[c] Free rate

[d] Export rate. The official rate was $ 052

[e] Kroon pegged at 18 to the pound sterling.

[f] Rounded from a computed average of $4.944.

[g] Free rate. The controlled rate was $ 791

In 1937 many types of German marks were used in foreign trade, but the average rate always quoted was that for the government-supported "free mark," valued at 40.2 cents. It took no account of various types of blocked marks which sold at only a fraction of this rate. Since our figures for Germany's foreign obligations are based on data given in German marks, they may be out of line with figures for other countries. However, this fictitious rate appears to be the only one computed and made public.

French long-term investments abroad are given in both francs and dollars, and where the loan terms clearly called for payment in gold francs, that fact is indicated. That is, the present dollar value of the gold franc was calculated at roughly 1.7 times its par in terms of the old dollar—since the dollar before it was depreciated on January 31, 1934, had a gold value 1.7 times as great as the new. Amounts stated in gold francs have been converted to dollars at two alternative rates: at 4 cents per franc, the average paper-franc rate for 1937; and at 32.8 cents, the value of 1 gold franc (old par 19.3 cents) in terms of the depreciated dollar. In the same way, some Czechoslovak issues calling for payment in gold crowns have been converted at 3.5 cents and 5.1 cents.

It is generally recognized, of course, that French investors will never be able to collect payment on a gold-franc basis. However, the Stabilization Law of 1928, still in effect, requires that payments on gold franc contracts already in existence should be made in amounts equal to the value of the gold franc payments stipulated in the contract. This law was upheld in a case before a Paris court as late as April 1940.[1]

The accounts for the United Kingdom are given in pounds sterling as well as dollars, to facilitate comparisons with data from British publications.

List of countries and order of arrangement. Page 291 lists the countries for which balance sheets have been compiled, and groups them by large geographic areas. It also shows the order in which the balance sheets are presented, and the order of arrangement followed in each of the statements.

For Britain and most other countries with colonial possessions, the investment account shows the investments made within the Empire as distinguished from those in foreign countries. The exception is Japan, whose figures on investments abroad have

[1] *Wall Street Journal*, Oct. 24, 1934; Apr. 25, 1940.

LIST OF COUNTRIES INCLUDED IN DEBT AND INVESTMENT TABLES

EUROPE:	NORTH AMERICA:	ASIA AND OCEANIA:
Austria	Canada	Australia
Belgium-Luxemburg	Mexico	China (including Manchuria)
Bulgaria	United States	India, Burma, and Ceylon
Czechoslovakia		Indo-China and New Caledonia
Danzig	CENTRAL AMERICA AND WEST INDIES:	Iran
Denmark	British West Indies	Iraq, Palestine, and Syria
Eire	Costa Rica	Japan
Estonia	Cuba	Malaya
Finland	Dominican Republic	Netherlands East Indies
France	French West Indies	New Zealand
Germany	Guatemala	Philippine Islands
Greece	Haiti	Portuguese Asia (Timor and Macau)
Hungary	Honduras and British Honduras	Siam
Iceland	Netherlands West Indies	Turkey
Italy		
		AFRICA:
Latvia	Nicaragua	Belgian Congo
Lichtenstein	Panama	British Africa
Lithuania	Salvador	Egypt (and Suez)
Monaco		French Africa
Netherlands	SOUTH AMERICA:	Italian East Africa
	Argentina	
Norway	Bolivia	Liberia
Poland	Brazil	Portuguese Africa
Portugal	Chile	Spanish Africa
Romania	Colombia	
Spain		
	Ecuador	
Sweden	Guianas	
Switzerland	Paraguay	
United Kingdom	Peru	
Yugoslavia	Uruguay	
U.S.S.R.	Venezuela	

consistently ignored those in the colonies. However, it is known that the Japanese have shared in developing the mineral resources of the colonies—particularly in Korea—and in the building of railways, electric installations, and other public utilities. It will be seen, therefore, that the map on page 39 includes the Japanese colonies with the small debtor group, even though no balance sheet for these areas could be compiled.

For some colonial groups—French West Indies, British Africa, French Africa, and Portuguese Africa—it has been possible to give partial information concerning component areas. In some cases it was necessary to group together countries that are politically independent.

Regional Creditor-Debtor
(In millions

I. INTERNATIONAL INVESTMENTS

Creditor Country	Debtor Area: Europe	U S S.R	North America	Central America and West Indies	South America	Asia and Oceania	Africa	Not Identified	Total
Austria	43	—	9	—	—	—	—	—	52
Belgium-Luxemburg	311	—	156	—	344	84	355	—	1,253
Within Empire	—	—	—	—	—	—	*355*	—	*355*
Bulgaria	—	—	—	—	—	—	—	—	—
Czechoslovakia	155	—	5	—	—	—	—	—	160
Danzig	—	—	—	—	—	—	—	—	—
Denmark	6	—	17	—	—	—	—	55	78
Eire	—	—	14	—	—	—	—	—	14
Estonia	—	—	1	—	—	—	—	6	7
Finland	—	—	1	—	—	—	—	—	1
France	1,035	—	539	10	282	906	1,044	43	3,859
Within Empire	—	—	—	*5*	*1*	*394*	*728*	*43*	*1,171*
Germany	274	—	130	23	109	140	—	—	676
Greece	—	—	5	—	—	—	—	—	5
Hungary	5	—	—	—	—	—	—	—	5
Iceland	—	—	—	—	—	—	—	—	—
Italy	117	—	48	—	50	8	201	—	424
Within Empire	—	—	—	—	—	—	*201*	—	*201*
Latvia	—	—	—	—	—	—	—	—	—
Lichtenstein	—	—	20	—	—	—	—	—	20
Lithuania	—	—	—	—	—	—	—	—	—
Monaco	—	—	13	—	—	—	—	—	13
Netherlands	1,643	—	1,016	63	82	1,998	16	—	4,818
Within Empire	—	—	—	*55*	*1*	*1,900*	—	—	*1,956*
Norway	52	—	10	—	—	—	—	5	67
Poland	3	—	2	—	—	—	—	—	5
Portugal	—	—	2	—	300	2	90	—	394
Within Empire	—	—	—	—	—	*2*	*90*	—	*92*
Romania	—	—	—	—	—	—	—	—	—
Spain	2	—	21	1	58	—	—	—	82
Sweden	326	—	51	—	2	2	—	—	381
Switzerland	780	—	767	1	57	5	—	—	1,610
United Kingdom	1,725	—	6,308	416	3,630	8,601	2,165	60	22,905
Within Empire	—	—	*2,685*	*202*	*18*	*6,825*	*1,800*	*60*	*11,590*
Yugoslavia	—	—	1	—	7	—	—	—	8
Total Empire	—	—	*2,685*	*262*	*20*	*9,121*	*3,174*	*103*	*15,365*
Total Foreign	*6,480*	—	*6,451*	*252*	*4,901*	*2,625*	*697*	*66*	*21,472*
Europe Total	6,480	—	9,136	514	4,921	11,716	3,871	169	36,837

Position of Each Country, 1938
of dollars)

II. INTERNATIONAL OBLIGATIONS

Debtor Country	Creditor Area								
	Europe	U.S.S.R.	North America	Central America and West Indies	South America	Asia and Oceania	Africa	Not Identified	Total
Austria	273	—	43	—	—	—	—	61	377
Belgium-Luxemburg	371	—	48	—	—	—	3	13	435
Bulgaria	102	—	8	—	—	—	—	—	110
Czechoslovakia	113	—	16	—	—	—	—	155	284
Danzig	11	—	3	—	—	—	—	—	14
Denmark	185	—	111	—	—	—	—	80	376
Eire	—	—	2	—	—	—	—	—	2
Estonia	13	—	1	—	—	—	—	3	17
Finland	36	—	15	—	—	—	—	4	55
France	427	—	132	—	—	—	—	—	559
Germany	1,982	—	697	—	—	—	—	64	2,743
Greece	459	—	27	—	—	—	—	—	486
Hungary	204	—	57	—	—	—	—	108	369
Iceland	8	—	—	—	—	—	—	—	8
Italy	12	—	157	—	—	—	—	7	176
Latvia	17	1	3	—	—	—	—	4	25
Lichtenstein	—	—	—	—	—	—	—	—	—
Lithuania	13	—	—	—	—	—	—	7	20
Monaco	—	—	—	—	—	—	—	—	—
Netherlands	3	—	18	—	—	—	—	—	21
Norway	160	—	110	—	—	—	—	143	413
Poland	478	—	171	—	—	—	—	81	730
Portugal	150	—	7	—	—	—	—	—	157
Romania	553	—	52	—	—	—	—	45	650
Spain	212	—	73	—	—	—	—	—	285
Sweden	18	—	26	—	—	—	—	—	44
Switzerland	144	—	24	—	—	—	—	—	168
United Kingdom	309	—	672	—	—	224	94	—	1,299
Yugoslavia	230	—	38	—	—	—	—	43	311
Europe, country not specified	—	—	40	—	—	106	—	—	146
Europe Total	6,483	1	2,551	—	—	330	97	818	10,280

Regional Creditor-Debtor Position
(In millions

I INTERNATIONAL INVESTMENTS

Creditor Country	Debtor Area								
	Europe	U.S.S.R.	North America	Central America and West Indies	South America	Asia and Oceania	Africa	Not Identified	Total
U.S.S.R.	1	—	—	—	—	54	—	—	55
Canada	58	—	1,222	11	22	—	—	542	1,855
Mexico	—	—	19	—	—	—	—	—	19
United States	2,376	10	4,454	977	2,519	997	158	—	11,491
North America Total	2,434	10	5,695	988	2,541	997	158	542	13,365
British West Indies	—	—	30	—	—	—	—	—	30
Costa Rica	—	—	1	—	—	—	—	—	1
Cuba	—	—	26	—	—	—	—	—	26
Dominican Republic	—	—	—	—	—	—	—	—	—
French West Indies	—	—	—	—	—	—	—	—	—
Guatemala	—	—	1	—	—	—	—	—	1
Haiti	—	—	—	—	—	—	—	—	—
Honduras and British Honduras	—	—	3	—	—	—	—	—	3
Netherlands West Indies	—	—	2	—	—	—	—	—	2
Nicaragua	—	—	—	—	—	—	—	—	—
Panama	—	—	3	—	—	—	—	—	3
Salvador	—	—	2	—	—	—	—	—	2
Central America and West Indies Total	—	—	68	—	—	—	—	—	68
Argentina	—	—	9	—	30	—	—	—	39
Bolivia	—	—	—	—	—	—	—	—	—
Brazil	—	—	5	—	—	—	—	—	5
Chile	—	—	18	—	3	—	—	—	21
Colombia	—	—	2	—	—	—	—	—	2
Ecuador	—	—	1	—	—	—	—	—	1
Guianas (British, French, and Dutch)	—	—	1	—	—	—	—	—	1
Paraguay	—	—	—	—	—	—	—	—	—
Peru	—	—	2	—	—	—	—	—	2
Uruguay	—	—	—	—	—	—	—	—	—
Venezuela	—	—	2	—	—	—	—	—	2
South America Total	—	—	40	—	33	—	—	—	73
Australia	224	—	18	—	—	12	—	—	254
China (including Manchuria)	58	—	58	—	10	644	—	—	770
India, Burma, and Ceylon	—	—	12	—	—	—	—	—	12
Indo-China and New Caledonia	—	—	—	—	—	—	—	—	—
Iran	—	—	—	—	—	—	—	—	—
Iraq, Palestine, and Syria	—	—	5	—	1	—	—	—	6
Japan	48	5	48	—	1	1,128	—	—	1,230
Malaya	—	—	1	—	—	—	—	—	1
Netherlands East Indies	—	—	7	—	—	—	—	—	7
New Zealand	—	—	4	—	—	—	—	—	4
Philippine Islands	—	—	28	—	—	—	—	—	28
Portuguese Asia	—	—	—	—	—	—	—	—	—
Siam	—	—	—	—	—	—	—	—	—
Turkey	—	—	1	—	—	—	—	—	1
Asia and Oceania Total	330	5	182	—	12	1,784	—	—	2,313

OF EACH COUNTRY, (*Continued*)
of dollars)

II INTERNATIONAL OBLIGATIONS

Debtor Country	Creditor Area: Europe	USSR	North America	Central America and West Indies	South America	Asia and Oceania	Africa	Not Identified	Total
USSR	—	—	10	—	—	5	—	—	15
Canada	2,725	—	3,795	—	—	—	—	108	6,628
Mexico	1,027	—	686	—	—	—	—	65	1,778
United States	5,384	—	1,214	68	40	182	15	104	7,007
North America Total	9,136	—	5,695	68	40	182	15	277	15,413
British West Indies	200	—	10	—	—	—	—	—	210
Costa Rica	32	—	32	—	—	—	—	—	64
Cuba	144	—	638	—	—	—	—	25	807
Dominican Republic	—	—	49	—	—	—	—	—	49
French West Indies	5	—	—	—	—	—	—	—	5
Guatemala	49	—	73	—	—	—	—	30	152
Haiti	2	—	18	—	—	—	—	—	20
Honduras and British Honduras	17	—	38	—	—	—	—	4	59
Netherlands West Indies	55	—	50	—	—	—	—	—	105
Nicaragua	2	—	9	—	—	—	—	—	11
Panama	3	—	49	—	—	—	—	—	52
Salvador	6	—	15	—	—	—	—	—	21
West Indies, country not specified	—	—	5	—	—	—	—	—	5
Central America and West Indies Total	515	—	986	—	—	—	—	59	1,560
Argentina	2,588	—	582	—	—	—	—	23	3,193
Bolivia	51	—	90	—	3	1	—	—	145
Brazil	1,220	—	539	—	—	—	—	205	1,964
Chile	493	—	614	—	—	1	—	180	1,288
Colombia	72	—	250	—	—	—	—	—	322
Ecuador	21	—	5	—	—	—	—	2	28
Guianas (British, French, and Dutch)	19	—	6	—	—	—	—	—	25
Paraguay	22	—	5	—	30	—	—	1	58
Peru	160	—	136	—	—	10	—	20	326
Uruguay	185	—	47	—	—	—	—	16	248
Venezuela	90	—	262	—	—	—	—	4	356
South America, country not specified	—	—	5	—	—	—	—	—	5
South America Total	4,921	—	2,541	—	33	12	—	451	7,958
Australia	2,650	—	195	—	—	—	—	885	3,730
China (including Manchuria)	1,220	47	230	—	—	1,060	—	—	2,557
India, Burma, and Ceylon	3,050	—	49	—	—	14	—	—	3,113
Indo-China and New Caledonia	394	—	3	—	—	80	—	—	477
Iran	140	—	57	—	—	—	—	—	197
Iraq, Palestine, and Syria	106	—	31	—	—	—	—	—	137
Japan	269	—	155	—	—	—	—	110	534
Malaya	444	—	24	—	—	228	—	—	696
Netherlands East Indies	2,145	—	71	—	—	162	—	—	2,378
New Zealand	685	—	23	—	—	12	—	—	720
Philippine Islands	45	—	133	—	—	128	—	—	306
Portuguese Asia	2	—	—	—	—	—	—	—	2
Siam	100	—	—	—	—	100	—	—	200
Turkey	496	6	23	—	—	—	—	65	590
Oceania, country not specified	—	—	3	—	—	—	—	—	3
Asia and Oceania Total	11,746	53	997	—	—	1,784	—	1,060	15,640

REGIONAL CREDITOR-DEBTOR POSITION
(In millions

I INTERNATIONAL INVESTMENTS

Creditor Country	Debtor Area: Europe	U S S R	North America	Central America and West Indies	South America	Asia and Oceania	Africa	Not Identified	Total
Belgian Congo	—	—	—	—	—	—	—	—	—
British Africa	—	—	3	—	—	—	—	—	3
Egypt (and Suez)	97	—	9	—	—	—	—	—	106
French Africa	—	—	2	—	—	—	—	—	2
Italian East Africa	—	—	—	—	—	—	—	—	—
Liberia	—	—	—	—	—	—	—	—	—
Portuguese Africa	—	—	—	—	—	—	—	—	—
Spanish Africa	—	—	1	—	—	—	—	—	1
Africa Total	97	—	15	—	—	—	—	—	112
World Total	9,342	15	15,136	1,502	7,507	14,581	4,029	711	52,823

REGIONAL SUMMARY OF INTER-
(In millions

I. INTERNATIONAL INVESTMENTS

Creditor Area	Debtor Area: Europe	U.S.S.R.	North America	Central America and West Indies	South America	Asia and Oceania	Africa	Not Identified	Total
Europe	6,480	—	9,136	514	4,921	11,746	3,871	169	36,837
U S S R	1	—	—	—	—	54	—	—	55
North America	2,434[a]	10	5,695	988	2,541	997	158	542	13,365
Central America and West Indies	—	—	68	—	—	—	—	—	68
South America	—	—	40	—	33	—	—	—	73
Asia and Oceania	330	5	182	—	12	1,784	—	—	2,313
Africa	97	—	15	—	—	—	—	—	112
World Total	9,342	15	15,136	1,502	7,507	14,581	4,029	711	52,823[b]

[a] North America's investments in Europe should, of course, equal Europe's obligations to North American countries For an explanation of the discrepancy between the two totals given here see pp 288-89.

OF EACH COUNTRY, (*Continued*)
of dollars)

II. INTERNATIONAL OBLIGATIONS

Debtor Country	Creditor Area: Europe	U S S R.	North America	Central America and West Indies	South America	Asia and Oceania	Africa	Not Identified	Total
Belgian Congo	419	—	9	—	—	—	—	—	428
British Africa	1,836	—	78	—	—	—	—	—	1,914
Egypt (and Suez)	490	—	23	—	—	—	—	—	513
French Africa	744	—	10	—	—	—	—	—	754
Italian East Africa	201	—	—	—	—	—	—	—	201
Liberia	—	—	12	—	—	—	—	—	12
Portuguese Africa	182	—	2	—	—	—	—	—	184
Spanish Africa	—	—	—	—	—	—	—	—	—
Africa, country not specified	—	—	25	—	—	—	—	—	25
Africa Total	3,872	—	159	—	—	—	—	—	4,031
"Other British Countries"	60	—	—	—	—	—	—	—	60
World Total	36,733	54	12,939	68	73	2,313	112	2,665	54,957

NATIONAL BALANCE SHEETS, 1938
of dollars)

II INTERNATIONAL OBLIGATIONS

Debtor Area	Creditor Area: Europe	U S S.R.	North America	Central America and West Indies	South America	Asia and Oceania	Africa	Not Identified	Total
Europe	6,483	1	2,551[a]	—	—	330	97	818	10,280
U.S S R.	—	—	10	—	—	5	—	—	15
North America	9,136	—	5,695	68	40	182	15	277	15,413
Central America and West Indies	515	—	986	—	—	—	—	59	1,560
South America	4,921	—	2,541	—	33	12	—	451	7,958
Asia and Oceania	11,746	53	997	—	—	1,784	—	1,060	15,640
Africa	3,872	—	159	—	—	—	—	—	4,031
"Other British Countries"	60	—	—	—	—	—	—	—	60
World Total	36,733	54	12,939	68	73	2,313	112	2,665	54,957[b]

[b] The columns entitled "not identified" are largely responsible for lack of agreement between the world totals of investments and obligations See pp 288-89

LONG-TERM INVESTMENTS AND OBLIGATIONS, 1938

AUSTRIA

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In	Amount	Type of Investment	Source of Data	Remarks
Bulgaria	$ 0.8	c	E	
Czechoslovakia	0 5	d	S	
Germany	17	d	T	
Hungary	2.5	d	R	
Poland	12 3	t	C	All c
Romania	1 5	g	A	
Yugoslavia	8 4	t	AF	All d
Europe, total	$ 43			
United States	9	t	G	Practically all p
Chile	0.1	t		All d
Near East	..			
North Africa	.			
Total identified	$ 52.1			

II. LONG-TERM OBLIGATIONS ABROAD,

To	Amount	Type of Investment	Source of Data	Remarks
Belgium	$ 5.4	t	CQ	$4 3 p, $1 1 d
Czechoslovakia	17.5	p	C	
France	40	p	C	
Germany	6 3	t	CQ	$3 p; $3 3 d
Italy	19.3	g	A	
Netherlands	8.3	p	C	
Poland	2 5	t	CQ	$0 3 p, $2 2 d
Spain	2 4	p	C	
Sweden, Norway, Denmark	4 5	p	CA	$4 4 g
Switzerland	69	t	CJ	$52 p, $17 d
United Kingdom	98	t	CAQ	$95 5 g; $2 5 d
Europe, total	$273 2			
United States	42.5	p, d	CH	$36 8 p (U. S. Dept. of Commerce gives $10 2 p for dollar bonds), $5 7 d (1936 figure)
Country not identified	61.3	t	CA	Includes $60 which is Austria's share of pre-war Austro-Hungarian external debt so far as settled
World total	$377			

BELGIUM-LUXEMBURG

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In Empire Countries.	Amount	Type of Investment	Source of Data	Remarks
Belgian Congo	$ 355	t	X	$140 g, $215 railways and mining, including investment of Belgian Government (W gives higher figures) Based on A, W, Standard Corporation Records
In Foreign Countries				
Austria	$ 5.4	t	CQ	$4.3 p, $1.1 d
Bulgaria	10.8	g, c	AE	$3 g, $7.8 c
Czechoslovakia				Some in chemicals and metallurgy
France	.			Some d (rayon mills, glass works, chemicals); also some p
Germany	180	t	T	
Greece	24	t	X	$10 d, $14 g Based on J, A, U
Hungary	2.7	g, d	AR	$1.4 g, $1.3 d
Italy				
Latvia	0.2	t	A	
Lithuania	3.4	g, s	FC	$0.4 g, $3 s
Norway	1.1	s	C	
Poland	42.1	t	C	$3.8 g; $38.3 c
Portugal				Some d (including Lisbon Light and Power Co)
Romania	12	t	AJ	$3.5 g; $8.5 d ($6 oil)
Spain	26.8	t	B	Tramways, railways, light and power
Yugoslavia	5.3	t	A	All d
Europe, total	$ 313.8+			
United States	$ 156	t	G	$70 p (all c); $74 d, $12 m
Argentina	$ 336	t	J	$327 d (principally public utilities)
Bolivia	1.5	t	J	All p
Chile	0.2	t	J	All d
Colombia	6.9	t	J	$6.1 p, $0.8 d
Paraguay	.		A	"Fair-sized sums"
Venezuela	.			
South America, total	$ 344.6+			
China (including Manchuria)	$ 84	t	AP	$60 g (of this $53.7 railways), $24 d
Turkey	.			Some d (including a cement factory)
Egypt	$.			Banking, railways
Total identified	$1,253			

II. LONG-TERM OBLIGATIONS ABROAD,

To	Amount	Type of Investment	Source of Data	Remarks
France	$ 70.2	g	D	
Netherlands	231	t	CA	$33.9 g (of which $7.9 Luxemburg) Total for Belgium ($223) estimated from 1937 interest and dividends receipts
Sweden	5.0	g	D	
United Kingdom	65	g	A	
Europe, total	$ 371.2			
United States	48.2	p, d	III	$31.2 p; $17 d
Egypt	3.0	g	F	Bonds held by Egyptian government
Country not identified	13.0	g	D	
World total	$ 435			

BULGARIA

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In	Amount	Type of Investment	Source of Data	Remarks
United States	$		G	Less than $0 5 t

No further record available

II. LONG-TERM OBLIGATIONS ABROAD,

To	Amount	Type of Investment	Source of Data	Remarks
Austria	$0 8	c	E	
Belgium	10.8	g, c	AE	$3 g, $7 8 c
Czechoslovakia	2 1	g, c	AE	$0 5 g, $1 6 c
France	22 5	g, c } t	AE	$19 3 g; $3 2 c
" (gold franc debt)	$1 1 or $9.1	g } t	A	27 7 gold francs at 4¢ (paper value), or at 32 8¢ (gold value)
Germany	1.5	c	E	Also half interest in Bulgarian lead company (*Minerals Yearbook*, 1940)
Hungary	0 3	c	E	
Italy	4.8	g, c	AE	$2 g, $2 8 c
Netherlands	0 3	c	E	
Romania	0 1	c	E	
Switzerland	9 2	g, c	AE	$3 g; $6 2 c
United Kingdom	48 9	g, c	AE	$48 5 g; $0 4 c
Europe, total	$102.4+ or $110.4+			Gold francs included at 4¢ or 32.8¢
United States	7 9	p, d	IF	$4.8 p; $3 1 d
World total[a]	$110+ or $118+			Gold francs included at 4¢ or 32.8¢

[a] Exclusive of the share of the old Ottoman debt assigned to Bulgaria, on which no settlement has been reached.

CZECHOSLOVAKIA

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In:	Amount	Type of Investment	Source of Data	Remarks
Austria	$17.5	p	C	
Bulgaria	2.1	g, c	AE	$0 5 g; $1.6 c
Germany	98	d	T	
Hungary	2 6	g, d	AR	$2 3 g; $0 3 d
Poland	5 3	t	C	$0.6 g, $4 7 c
Romania	2.4	g	AJ	Also some investment in metallurgy and glass
" (gold Kc bonds)	$6 2 or $9.1	g	AF	Kc (gold) 178 2 at 3.5¢ (paper value) or at 5 1¢ (gold value)
Sweden	..			Czechoslovak steel company owns iron mines *Economist*, Aug. 5, 1939, p. 266
Yugoslavia	21.4	t	A	$3.6 g; $17 8 d
Europe, total	$155+ or $158+			Gold Kc included at 3.5¢ or 5 1¢
United States	5	t	G	$2 p (all c), $2 d, $1 m
Total identified[a]	$160 or $163			Gold Kc included at 3 5¢ or 5 1¢

[a] The Czechoslovak Government reported a total (excluding foreign assets held by government) of only 61 million dollars, including 30 millions direct. However, this estimate appears to be much too low, in view of the interest and dividends income reported in annual statements published by the League of Nations. The direct investments identified in the table given here are known to be too low, except in the case of Germany. For example, they do not include any of the Bata company's extensive investments—for which details are not available.

CZECHOSLOVAKIA *(Continued)*

II. LONG-TERM OBLIGATIONS ABROAD,

To				
Austria	$ 0 5	d	S	
Belgium	..			Some in chemicals and metallurgy
France	39 4	g, d	AS	$27.9 g; $11.5 d
Germany	1.6	d	S	
Italy				
Netherlands	3 3	g, d	AS	$1 5 g, $1 8 d
Sweden	1.0	d	S	
Switzerland	31	t	J	
United Kingdom	35.9	g, d	AS	$25 g, $10.9 d
Europe, total	$112.7+			
United States	15.9	p, d	IH	$8 2 p (of this $1.1 Sudetenland); $7 7 d
Country not identified	155	p, d	DA	$140 p, $15 d Difference between total reported by Czechoslovak Government (after deduction of inter-government debt) and total identified above This includes $41 which is the Czechoslovak share of pre war Austro-Hungarian external debt
World total	$284			

DANZIG

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In	Amount	Type of Investment	Source of Data	Remarks
United States	..		G	Less than $0.5

No further record available.

II. LONG-TERM OBLIGATIONS ABROAD,

To				
Germany	$ ..			
Netherlands	1 5	g	A	
Sweden	0.9	g	—	Swedish Match (Standard Corporation Records)
United Kingdom	8.5	g	A	
Europe, total	$10.9+			
United States	3 0	p, d	III	$1.9 p, $1 1 d (figure is for Danzig, Estonia and Lithuania)
Total identified	$13 9			

DENMARK

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In Empire Countries	Amount	Type of Invest-ment	Source of Data	Remarks
Iceland...	$ ...			
In Foreign Countries				
Austria	$			See Swedish investment in Austria
Estonia	0.4	c	C	
Germany	2 0	d	T	
Latvia	0 3	t	A	All c
Norway	1 8	s	C	
Poland	0.6	t	C	All c
Total Europe	$ 5 1+			
United States	17	t	G	$5 p (all c), $8 d, $4 m
Colombia	0.2	t	J	All d
China	——			See Sweden
Country not identified	55	—	C	Difference between total reported by Danish Government and total identified above
World total	$77	t	C	

II. LONG-TERM OBLIGATIONS ABROAD,

To				
France	$ 3 7	g	A	
" (gold franc debt)	$1 8 or $14 8	g	X	45 gold francs at 4¢ (paper value) or at 32 8¢ (gold value) Based on International Institute of Finance, *Bulletin 97*, p 23
Germany				Some Danish krone loans
Netherlands	38 5	p	X	$33 g Based on A, C, D, E
Norway	2 6	s, d	C	$1 8 s; $0.8 land
Sweden	32 9	g	A	$7.2 Swedish loan to Mortgage Bank of Denmark
Switzerland	5.7	g	A	
United Kingdom	100	t	XA	$60 g; $40 d (assuming British figure was twice U S.)
Europe, total	$185 2+ or $198 2+			Gold francs included at 4¢ or 32 8¢
United States	110 7	p, d	IH	$91 p; $19.7 d
Country not identified	80	—	C	Difference between total in Danish and total identified above
World total	$376 or $389	t	C	Gold francs included at 4¢ or 32.8¢

EIRE

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,[a]

In	Amount	Type of Invest-ment	Source of Data	Remarks
United Kingdom	$			
United States	14	t	G	$8 p (all c), $1 d; $5 m

II. LONG-TERM OBLIGATIONS ABROAD,[b]

To				
United Kingdom	$ ...			
United States	2.5	p, d	III	$0 4 p, $2 1 d

[a] Interest and dividend receipts on long-term capital in 1938, as reported by the League of Nations, amounted to £13,500,000 This includes income from British Government bonds held by the Central Bank and commercial banks of Eire Capitalized at 4.5 per cent it represents investments of 1 5 billion dollars

[b] Interest and dividend payments on long-term capital in 1938, as reported by the League of Nations, amounted to £7,300,000. Capitalized at 4 5 per cent this represents "foreign" obligations of 800 million dollars.

ESTONIA

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In:	Amount	Type of Invest-ment	Source of Data	Remarks
Latvia	$ 0.4	t	A	All c
United States	1	t	G	All p (c)
Country not identified	6.1	—	C	Difference between total reported by the Estonian Government and total identified above
World total	$ 7 5	t	C	

II LONG-TERM OBLIGATIONS ABROAD,

To:				
Denmark	$ 0.4	c	C	
Finland	0 2	c	C	
France	0.3	c	C	
Germany	1.2	c	C	
Netherlands	2 2	c	C	
Sweden	2.4	t	AC	$1 8 g; $0.6 c
United Kingdom	5.7	t	AC	$3 g
Europe, total	$12.4			
United States	1.3	p	I	Some d (see Danzig)
Country not identified	3 4	—	C	Difference between total reported by Estonian Government and total identified above
World total	$17.1	t	C	

FINLAND

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In	Amount	Type of Invest-ment	Source of Data	Remarks
Estonia	$ 0 2	c	C	
United States	1	t	G	All p (c)
Total identified	$ 1.2			

II. LONG-TERM OBLIGATIONS ABROAD,

To:				
France	$			
Germany				
Netherlands	4	t	J	
Norway	1.0	p	C	
Sweden	11.9	g	A	Some d (including 7 telephone companies)
United Kingdom	19.5	g	A	
Europe, total	$36.4+			
United States	14.4	p, d	IH	$8 9 p, $5 5 d
Country not identified	4.2	—	C	Difference between total reported by the Finnish Government and total identified above
World total	$55	t	C	$32 g; $23 c

FRANCE

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD.

In Empire Countries	Amount[a]		Type of Investment	Source of Data	Remarks
Guadeloupe	Frs 77	$ 3.1	g	A	
Martinique	57	2.3	g	A	
Central America and West Indies, total	Frs 134	$ 5.4			
Guiana, French	Frs 14	$ 0.6	g	N	
Indo-China	Frs 9,768	$ 391	t	BNO	$162 g (including guaranteed rails), $229 d
New Caledonia	65	2.6	g	A	Also some d (mining)
Asia and Oceania, total	Frs 9,833	$ 393.6			
Algeria and Tunisia	Frs 4,891	$ 196	t	AN	$128 g, $68 d (corporate issues, 1924–38)
Cameroon	322	12.9	t	A	$1.2 g; $11.7 d
Madagascar and Somaliland	1,738	69.5	t	AN	$52.4 g, $17.1 d (corporate issues, 1924–38)
Morocco	6,833	273	t	AN	$186 g; $87 d (corporate issues, 1924–38)
Reunion	26	1.0	g	N	
Togo	73	2.9	g	N	
West and Equatorial Africa	4,312	173	t	AN	$99 g, $74 d (corporate issues, 1924–38)
Africa, total	Frs 18,195	$ 728.3			
Country not specified	Frs 1,069	$ 42.8	d	N	Corporate issues, 1924–38
Empire Countries, total[b]	Frs. 29,245	$1,170.7			
In Foreign Countries					
Austria	Frs 1,000	$ 40	p	C	
Belgium	1,755	70.2	g	D	
Bulgaria	536	22.5	g, c }t	AE	$19.3 g; $3.2 c
"	G Frs. 27.7	1.1 or 9.1	g }t	A	
Czechoslovakia	Frs 985	39.4	g, d	AS	$27.9 g; $11.5 d
Denmark	93	3.7	g	A	
"	G Frs 45	1.8 or 14.8	g	X	See International Institute of Finance, *Bulletin* 97, Jan. 1938, p 23
Estonia	Frs 7	0.3	c	C	
Finland		.			
Germany	4,575	183	t	T	
Greece	1,650	66	t	X	$46 g; $20 d. Based on J. A. U, *Economist*, Mar 14, 1942, p 366
Hungary	815	32.6	t	AJ	$25.5 g, $7.1 d
Italy		..			
Latvia	8	0.3	t	A	
Norway	817	32.7	t	AC	$5.7 g; $26.5 s, $0.5 land
Poland	4,130	165.2	t	C	$19.3 g (including $12.9 railways); $145.9 c
Romania	1,742	69.7	g, d }t	AJ	$52.7 g; $17 d ($15 oil)
"	G. Frs 348	13.9 or 114.2	g }t	A	
Spain	Frs. 3,385	135	t	B	Govt., railways, mining, utilities, manufactures
Switzerland	400	16	t	X	Estimated remainder of 1914 holdings
United Kingdom	500	20	t	X	Estimated remainder of 1914 holdings
Yugoslavia	2,538	101.6	g, d }t	A	$77.8 g (including $23.8 French Govt loan), $23.8 d ($6.1 mining). See *Economist*, April 1940, p. 746
"	G. Frs. 510	20.4 or 167.3	g }t	A	
Europe, total	Frs. 24,936 G. Frs 930.7	$998.2 37.2 or 305.4			At 4¢ or 32.8¢

FRANCE *(Investments continued)*

In Foreign Countries						
Canada and Newfoundland	Frs	1,000	$ 40	t	X	Estimated remainder of 1914 holdings checked by M
Mexico		2,275	91	t	A	$85 g and railways
United States		10,200	408	t	G	$287 p (all c), $57 d, $64 m
North America, total	Frs	13,475	$539			
Costa Rica	Frs	105	$ 4.2	t	A	$0 2 g
Cuba						
Panama		25	1	t	J	Reported figure scaled down to exclude resident foreigners, bank deposits and other short term
Central America and West Indies, total	Frs	130+	$ 5.2+			
Argentina	Frs	4,000	$160	t	J	$159 d (largely railways)
Bolivia		133	5.3	t	J	All d ($5.2 mining)
Brazil		1,525	61	g, c } t	AJ	$21 g; $40 c
" [a]	G Frs	229	9.2 or 75.2	g }	AF	
Chile	Frs	430	17.2	t	ABJ	$7.6 g; $9.6 d ($6 1 mining, $3.3 commerce and industry)
Colombia		90	3.6	t	FJ	$2.9 g; $0 7 d
Ecuador	G Frs.	9.1	0 4 or 3.0	g	B	Government of Ecuador disclaims
Paraguay	Frs.	175	7 0	t	A	
Peru		125	5.0	t	V	
Uruguay		310	12.4	t	VAJ	About $5 5 g
Venezuela		.	.			
South America, total	Frs.	6,788+	$271.5+			
	G. Frs.	238 1	9.6 or 78.2			At 4¢ or 32 8¢
			$281 1+ or $349 7+			
China (including Manchuria)	Frs	3,100	$124	t	AP	$69 g (of this $12.6 railways); $55 d
Iraq and Syria		800	32	t	X	Based on H and *Economist*, May 1931, p 1095
Japan		471	18.8	g	A	
Malaya, British		50	2.0	d	XO	
Netherlands Indies		875	35	t	O	
Turkey		7,464[c]	299[c]	g, c } t	AV	$49 g, $250 c
" [a]	G Frs	25.1	1.0 or 8 2	g }	A	
Asia and Oceania, total	Frs	12,760	$510.8			
	G. Frs.	25 1	1 0 or 8.2			At 4¢ or 32.8¢
			$511.8 or $519			
Egypt and Suez	Frs	7,000	$280	t	X	Based on V, *Moody's Utilities*, also on 1914 estimate
South Africa and Rhodesia		900	36	t	W	Mining
Africa, total	Frs	7,900	$316			
World total	Frs	95,234	$3,811.4			
	G. Frs.	1,193 9	47 8 or 391 8			At 4¢ or 32 8¢
			$3,859+ or $4,203+			

[a] Gold francs are converted here at 4¢ (the average value for the franc in 1937) and at 32.8¢ (the calculated value of the old 19.3¢ franc after the depreciation of the dollar).

[b] Approximately 15,077 million francs of stocks and bonds of French companies operating in empire countries were outstanding at the end of 1923.

[c] Bonds amounting to 895 million French francs issued in settlement of Turkey's quota of the old Ottoman debt are all credited to France, although some are held in the United Kingdom and other countries.

FRANCE (*Continued*)

II. LONG-TERM OBLIGATIONS ABROAD,

To:				
Belgium	$ ...			Some d (rayon mills, glass works, chemicals); also some p
Italy				
Netherlands	200	t	CA	$132 g Total estimated from 1937 interest and dividends receipts
Norway	0.9	p	C	
Switzerland	94 4	g	A	
United Kingdom	130	t	XA	$55 5 g (U K. total in France assumed to be as much as U S. total)
Europe, total	$427.3+			
United States	131.7	p, d	IH	$14 5 p; $117.2 d
Total identified	$559			

GERMANY

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD

In:	Amount	Type of Investment	Source of Data	Remarks
Austria	$ 6 3	t	CQ	$3 p, $3 3 d
Bulgaria	1.5	c	E	Germans have a half interest in lead company developing 6 deposits. (*Minerals Yearbook* 1940)
Czechoslovakia	1.6	d	S	
Danzig	.			
Denmark	.			Some Danish krone loans
Estonia	1.2	c	C	
Finland				
Greece	55.4	g	A	Germans control nickel mine and telephone company
Hungary	46	t	J	Probably an understatement All d
Latvia	2 2	t	AD	All c
Lithuania	2.0	s	C	
Norway	1 5	s, d	C	$1 1 s, $0.4 land
Poland	70.5	t	C	$0 9 g; $69 6 c
Portugal	.			Very small
Romania	75	t	AJ	$74 g; $1 d
Spain	7.6	t	B	
Sweden	..			
Yugoslavia	2.8	t	A	All d
Europe, total	$273.6+			
Mexico	$ 6 5	t	A	All railways Probably some mining is German; also some government
United States	124	t	G	$40 p (all c); $55 d; $29 m
North America, total	$130 5			
Costa Rica	$ 2 5	t	A	All d
Cuba	0.6	t	J	
Guatemala	20	t	A	50 marks (gold)
Central America and West Indies, total	$ 23.1			
Argentina	$ 12	t	J	All d. (Principally banking, commerce and industry)
Bolivia	8.0	t	J	All d ($5 commercial, $2 real estate)
Brazil	40	t	J	All d
Chile	20.1	t	J	$19.7 d ($16 2 commerce and industry)
Colombia	6 2	t	J	$1 2 p, $5 d
Ecuador				At least 1 oil company
Paraguay			A	"Fair-sized sums"
Peru	20	t	V	
Uruguay	2.4	d	J	
Venezuela				
South America, total	$108.7+			

GERMANY *(Investments continued)*

China (including Manchuria)	$130	t	AP	$86 g (of this $54 6 railways), $44 d
Netherlands East Indies	10	t	O	All d
Turkey	.			Some d (chrome and copper mining)
Asia and Oceania, total	$140+			
World total	$676+			

II. LONG-TERM OBLIGATIONS ABROAD,

To				
Austria	$ 17	d	T	
Belgium	180	t	T	
Czechoslovakia	98	d	T	
Denmark	2	d	T	
France	183	t	T	
Italy	34	t	T	
Netherlands	632	t	T	
Norway	9	d	T	
Poland				
Sweden	90	t	T	
Switzerland	467	t	T	
United Kingdom	270	t	T	
Europe, total	$1,982+			
United States	697	p, d	IH	$353 p; $344 d. The reported U S figures have been corrected to exclude $15 9 invested in Austria, and $1 1 in Sudetenland, Czechoslovakia
Other countries	64	p, d	T	
Total identified	$2,743			See p 290 for comment on exchange rate used

GREECE

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In	Amount	Type of Investment	Source of Data	Remarks
United States	$ 5	t	G	$3 p, $1 d, $1 m
Chile	0 4	t	I	All d
Total identified	$ 5.4			

II. LONG-TERM OBLIGATIONS ABROAD,[a]

To:				
Belgium	$ 24	t	X	$14 g, $10 d. Based on J, A, U
France	66	t	X	$46 g, $20 d Based on J, A, U, *Economist*, Mar. 14, 1942, p. 366
Germany	55.4	g	A	Germans control nickel mine and telephone company
Italy	4	g	AV	
Netherlands	1 5	g	AV	
Sweden	22	g	X	Based on A, V, U
Switzerland	4	g	AV	
United Kingdom	282	t	X	$217 g; $65 d Based on J, A, *Economist*, Mar 14, 1942, p 366
Europe, total	$458.9+			
Canada	$ 6 3	g	A	
United States	20.8	p, d	IH	$14.8 p, $6 d
North America, total	$ 27 1			
World total[b]	$486+			

[a] Roughly one third of the Greek Government's foreign-currency debt was held inside the country (see item 3 in balance of payments in Source C, p. 62)

[b] Up to the end of 1942, no settlement had been reached regarding the Greek share of the Ottoman debt, and none of this debt is included here

HUNGARY

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In:	Amount	Type of Investment	Source of Data	Remark
Bulgaria	$ 0 3	c	E	
Yugoslavia	5 0	t	A	All d
Europe, total	$ 5.3			
United States	.		G	Less than $0 5 t All s
Chile	0 1	t	J	All d
Total identified	$ 5.4			

II. LONG-TERM OBLIGATIONS ABROAD,

To:	Amount	Type of Investment	Source of Data	Remark
Austria	$ 2 5	d	R	
Belgium	2.7	g, d	AR	$1.4 g; $1.3 d
Czechoslovakia	2.6	g, d	AR	$2 3 g; $0 3 d
France	32 6	t	AJ	$25.5 g; $7 1 d
Germany	46	t	J	Probably an understatement. All d
Italy	8 0	g	A	
Netherlands	6.0	t	JA	$2.8 g
Romania	0 3	d	R	
Sweden	2 8	g	A	
Switzerland	14.2	g, d	AJ	$13 g, $1 2 d (an understatement)
United Kingdom	86.6	g, d	AR	$86.5 g; $0.1+ d
Europe, total	$204.3+			
United States	57.0	p, d	IH	$43 9 p; $13 1 d
Country not identified	108	g	A	Share of Austro-Hungarian prewar external debt assumed by Hungary
World total	$369+			

ICELAND

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In:	Amount	Type of Investment	Source of Data	Remarks
United States	$...		G	Less than $0 5 t

No further record available.

II. LONG-TERM OBLIGATIONS ABROAD,

To:	Amount	Type of Investment	Source of Data
Denmark	$ ..		
Sweden	1 3	g	A
United Kingdom	7 0	g	A
Total identified	$8.3		

ITALY

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In Empire Countries	Amount	Type of Investment	Source of Data	Remarks
Italian East Africa	$201	t	A	All d (industrial and commercial)
In Foreign Countries:				
Austria	$ 19.3	g	A	
Bulgaria	4 8	g, c	AE	$2 g, $2 8 c
Czechoslovakia	...			
France	. .			
Germany	34	t	T	
Greece	4	g	AV	
Hungary	8 0	g	A	
Poland	18 9	t	C	$17 g; $1 9 c
Romania	16	t	AJ	$13 3 g; $2 7 d (oil)
Spain	0.4	t	B	Banking and olive oil refineries
Yugoslavia	11.3	t	A	All d
Europe, total	$116.7+			
United States	$ 48	t	G	$14 p (all c); $12 d, $22 m
Argentina	$ 26 4	t	JF	$0 6 g; $25.8 d
Bolivia	1.5	t	J	All d ($1 industrial)
Brazil	.			
Chile	11 6	t	J	All d ($7 7 commerce and industry)
Colombia	0.1	t	J	All d
Ecuador	0 8	g	FB	
Paraguay				
Peru	10	t	VF	Including some d (mills and macaroni factories)
South America, total	$ 50 4+			
China (including Manchuria)	$ 2.6	t	AP	All d
Turkey	5 3	t	J	All d
Asia and Oceania, total	$ 7 9			
Egypt	$ ..			
World total	$424+			

II. LONG-TERM OBLIGATIONS ABROAD,

To:	Amount	Type	Source	Remarks
Belgium	$ ..			
France	...			
Switzerland	..			
United Kingdom	12 5	g	A	
United States	156 7	p, d	IH	$81 2 p; $75.5 d
Share of prewar Austro-Hungarian external debt	7		X	Based on percentages given by Leo Pasvolsky, *Economic Nationalism of the Danubian States* (1928), p 45
Total identified[a]	$176 2			

[a] Italy has retired its quota of the old Ottoman debt.

LATVIA

(All value figures are in millions)

I LONG-TERM INVESTMENTS ABROAD,

In	Amount	Type of Investment	Source of Data	Remarks
Lithuania	$ 0.3	s	C	
United States			G	Less than $0.5 t. All s

II. LONG-TERM OBLIGATIONS ABROAD,

To:	Amount	Type of Investment	Source of Data	Remarks
Belgium	$ 0.2	t	A	
Denmark	0.3	t	A	All c
Estonia	0.4	t	A	All c
France	0.3	t	A	
Germany	2.2	t	AD	All c
Netherlands	1.4	t	AD	All c
Sweden	5.5	t	AD	$3.5 g (see also *Moody's Governments*, 1943 p. 1839); $2 c
Switzerland	0.3	t	A	
United Kingdom	6.7	t	AD	$3.7 g, $3 c
Europe, total	$17.3			
U.S.S.R.	0.4	t	A	Imperial Russia $0.3, U.S.S.R. $0.1
United States	2.6	p, d	IA	$2.4 p; $0.2 d
Country not identified	4.3	t	AD	$3.7 g, $0.6 c
World total	$24.6			

LICHTENSTEIN

I. LONG-TERM INVESTMENTS ABROAD,

In	Millions of Dollars	Type of Investment	Source of Data	Remarks
United States	20	t	G	$12 p (all c); $8 d

II. LONG-TERM OBLIGATIONS ABROAD,

No record available

LITHUANIA

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In	Amount	Type of Investment	Source of Data	Remarks
United States	$		G	Less than $0.5 t

No further record available.

II. LONG-TERM OBLIGATIONS ABROAD,

To:	Amount	Type of Investment	Source of Data	Remarks
Belgium	$ 3.4	g, s	FC	$0.4 g, $3 s
Germany	2.0	s	C	
Latvia	0.3	s	C	
Netherlands	0.9	s	C	
Sweden	5.2	g, s	CA	$4.2 g
United Kingdom	1.0	p	FC	Largely s
Europe, total	$12.8			
United States	0.4	p	I	Some d (see Danzig)
Country not identified	7.0	—	C	Difference between total reported by Lithuanian Government and total identified above
World total	$20.2	t	C	

MONACO

I. LONG-TERM INVESTMENTS ABROAD,

In	Millions of Dollars	Type of Investment	Source of Data	Remarks
United States	13	t	G	$11 p (all c); $2 m

II. LONG-TERM OBLIGATIONS ABROAD,

No record available

NETHERLANDS

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In Empire Countries:	Amount	Type of Investment	Source of Data	Remarks
West Indies	$ 55	t	X	All d (principally oil refineries)
Guiana (Surinam)	0 6	g	A	
East Indies	1,900	t	XO	$650 p; $1,250 d. Items and total in source O do not agree
Empire Countries, total	$1,955.6			
In Foreign Countries:				
Austria	$ 8 3	p	C	
Belgium-Luxemburg	231	t	CA	$33.9 g (of which $7 9 Luxemburg) Total for Belgium ($223) estimated from 1937 interest and dividends receipts
Bulgaria	0.3	c	E	
Czechoslovakia	3.3	g, d	AS	$1 5 g; $1 8 d
Danzig	1 5	g	A	
Denmark	38 5	p	X	$33 g Based on A, C, D, E
Estonia	2.2	c	C	
Finland	4	t	J	
France	200	t	CA	$132 g Total estimated from 1937 interest and dividends receipts
Germany	632	t	T	
Greece	1.5	g	AV	
Hungary	6	t	JA	$2 8 g
Latvia	1 4	t	AD	All c
Lithuania	0 9	s	C	
Norway	10.6	g, s	ACV	$8 1 g; $2 5 s
Poland	18.1	t	C	$6.8 g, $11.3 c
Romania	83.3	t	AFJ	$73.3 g; $10 d ($9 5 oil)
Switzerland	124	t	C	Estimated from 1937 interest and dividends receipts
United Kingdom	275	t	C	Estimated from 1937 interest and dividends receipts
Yugoslavia	1.8	t	A	$0.9 g, $0 9 d
Europe, total	$1,643 7			
Mexico	$ 46	t	A	Principally oil
United States	970	t	G	$779 p (all c); $179 d, $12 m
North America, total	$1,016			
Cuba	$ 1 8	t	J	
Guatemala	4	t	J	All d
Haiti	2	t	J	All d
Central America and West Indies, total	$ 7.8			
Argentina	$ 14	t	JF	$7 g, $7 d
Bolivia	2.1	t	J	All d ($2 mining)
Brazil	10	t	JA	$4 g, $6 d
Chile	5 2	t	ABJ	$5 g, $0 2 d
Colombia	9 6	t	J	All d
Venezuela	40	t	JLK	
South America, total	$ 80.9			

NETHERLANDS (*Investments continued*)

China (including Manchuria)	37.2	t	AP	$31.4 g (all railways); $5.8 d
Iran	25	d	X	Part of Royal Dutch-Shell investment in Anglo-Iranian Oil. (Based on Standard Corporation Records)
Iraq and Palestine	14	t	X	Based on H and *Economist*, May 1931, p. 1095
Japan	.			
Malaya, British	22	d	0	
Turkey	.			
Asia and Oceania, total	$ 98 2+			
Egypt and Suez	$ 5	d	X	Based on *Moody's Utilities*
French Morocco	11	g	B	$9 1 guaranteed rails; $1 9 Port of Tangiers (international)
Africa, total	$ 16			
World total	$4,818+			

II. LONG-TERM OBLIGATIONS ABROAD,

To:			
Norway	$ 2.7	p	C
United States	18 2	d	H
Total identified	$ 20.9		

NORWAY

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In:	Amount	Type of Investment	Source of Data	Remarks
Austria	$.			See Swedish investments in Austria
Denmark	2 6	p	C	
Finland	1 0	p	C	
France	0.9	p	C	
Germany	9	d	T	
Netherlands	2.7	p	C	
Romania	0.3	t	J	All d
Sweden	17 6	p	C	
Switzerland	3.9	p	C	
United Kingdom	13.6	p	C	
Europe, total	$ 51.6			
United States	10	t	G	$6 p (all c), $2 d, $2 m
China				Included in Swedish foreign investments
Country not identified	5.5	p	C	
World total	$ 67 1			

II. LONG-TERM OBLIGATIONS ABROAD,

To.				
Belgium	$ 1 1	s	C	
Denmark	2.6	s, d	C	$1 8 s, $0.8 land
France	32 7	t	AC	$5 7 g, $26 5 s, $0 5 land
Germany	1 5	s, d	C	$1.1 s; $0 4 land
Netherlands	10 6	g, s	ACV	$8 1 g, $2.5 s
Sweden	38.9	t	AC	$24.1 g; $8 s, $6.8 land
Switzerland	23.6	t	AC	$12 8 g, $10.8 s
United Kingdom	49.0	t	AC	$38 g, $10.3 s, $0.7 land
Europe, total	$160.0			
Canada	$ 10 6	d	CHX	$5 s, $5 6 land
United States	99.5	p, d	IH	$68.6 p, $30.9 d
North America, total	$110.1			
Country not identified	$142.6	—	C	$122.7 g; $19.2 c, $0.7 land
World total	$413	t	C	

POLAND

(All value figures are in millions)

I LONG-TERM INVESTMENTS ABROAD,

In	Amount	Type of Invest-ment	Source of Data	Remarks
Austria..	$ 2.5	t	CQ	$0 3 p, $2.2 d
Germany...	.			
United Kingdom .				
United States .	2	t	G	$1 p (all c), $1 m
Total identified	$ 4 5			

II. LONG-TERM OBLIGATIONS ABROAD,[a]

To·	Amount	Type of Invest-ment	Source of Data	Remarks
Austria...	$ 12.3	t	C	All c
Belgium	42 1	t	C	$3 8 g, $38 3 c
Czechoslovakia....	5 3	t	C	$0 6 g, $4 7 c
Denmark.	0.6	t	C	All c
France	165.2	t	C	$19 3 g (including $12.9 railways), $145.9 c
Germany	70.5	t	C	$0 9 g; $69 6 c
Italy	18 9	t	C	$17 g, $1.9 c
Netherlands.	18.1	t	C	$6 8 g, $11.3 c
Sweden	53 9	t	C	$36.1 g, $17 8 c
Switzerland	24.6	t	C	$10 2 g, $14.4 c
United Kingdom	66.5	t	C	$45 5 g; $21 c
Europe, total..	$478.0			
United States .	171.2	t	C	$93 9 g; $77 3 c (The U S. Department of Commerce gives a smaller total—$79 2)
Country not identified...	81	—	C	Includes $61 which is Poland's share of pre war Austro-Hungarian external debt
World total.	$730	t	C	

[a] See also Leopold Wellisz, *Foreign Capital in Poland* (1938), particularly Appendix B table

PORTUGAL

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In Empire Countries:	Amount	Type of Invest-ment	Source of Data	Remarks
Angola...	$ 55.6	t	FW	$37.6 g; $18 d (including railway shares held by Portuguese Government)
Mozambique	34	t	FW	$1 g; $33 railways
Other.	2.7	t	F	$1 6 in Asia, $1 1 in Africa
Empire Countries, total	$ 92 3			
In Foreign Countries:				
United States	$ 2	t	G	$1 p (all c); $1 m
Brazil	300	t	BFJ	Largely sterling securities
Total identified..	$394.3			

II. LONG-TERM OBLIGATIONS ABROAD,

To.	Amount	Type of Invest-ment	Source of Data	Remarks
Belgium .	$ ..			Some d (including Lisbon Light and Power Co.)
Germany..	...			Very small
Romania	...			Some d (including an oil refinery)
United Kingdom	150	g	A	
United States	7.1	d	H	
Total identified	$157.1			

ROMANIA

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In:	Amount	Type of Investment	Source of Data	Remarks
Bulgaria	$0 1	c	E	
Hungary	0.3	d	R	
Portugal	...			Some d, including an oil refinery
United States			G	Less than $0 5 t. No d
Total identified	$0 4			

II. LONG-TERM OBLIGATIONS ABROAD,

To:				
Austria	$ 1 5	g	A	
Belgium	12	t	AJ	$3 5 g, $8 5 d ($6 oil)
Czechoslovakia	2.4	g	AJ	Also some investment in metallurgy and glass
" (gold Kc debt)	$6.2 or $9.1	g	AF	Kc (gold) 178.2 at 3½¢ (paper value) or at 5.1¢ (gold value)
France	69 7	g, d } t	AJ	$52.7 g; $17 d ($15 oil)
" (gold franc debt)	13.9 or 114 2	g } t	A	348 gold francs at 4¢ (paper value) or 32 8¢ (gold value)
Germany	75	t	AJ	$74 g; $1 d
Italy	16	t	AJ	$13.3 g, $2.7 d (oil)
Netherlands	83.3	t	AFJ	$73 3 g, $10 d ($9.5 oil)
Norway	0 3	t	J	All d
Sweden	45	t	A	All g
Switzerland	12 2	t	AJ	$10.7 g; $1.5 d
United Kingdom	215	t	AFJ	$180 g; $35 d ($24.5 oil)
Europe, total	$552.5+ or $665 7+			
United States	52 5	p, d	IX	$4.4 p; $48.1 d (Based on H)
Country not identified	45	g	AX	Romania's share of prewar external debt of Austria Hungary
World total	$650+ or $753+			Gold currencies included at minimum or maximum values

SPAIN

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In Empire Countries:	Amount	Type of Investment	Source of Data	Remarks
Morocco	$			
In Foreign Countries:				
Austria	$ 2.4	p	C	
Mexico	$.			
United States	21	t	G	$17 p (all c); $1 d; $3 m
Costa Rica	$.			Some bonds and real estate
Cuba	...		J	
Panama	1	t	J	Reported figure scaled down because it included resident foreigners, and also bank deposits and other short term
Argentina	$ 48	t	JA	$5 5 g, $42 5 d (principally utilities)
Bolivia	1.5	t	J	All d ($0 7 mining, $0 6 commercial)
Chile	7 9	t	J	All d ($6.9 commerce and industry)
Colombia	0 2	t	J	All d
South America, total	$ 57.6			
Total identified	$ 82.0			

SPAIN *(Continued)*

II. LONG-TERM OBLIGATIONS ABROAD,

To				
Belgium	$ 26.8	t	B	Tramways, railways, light and power
France	135	t	B	Government, railways, mining, utilities, manufacturing
Germany	7.6	t	B	
Italy	0.4	t	B	Banking, olive oil refineries
United Kingdom	42.1	t	B	Excluding confiscated properties *New York Times*, Feb 5, 1937
Europe, total	$211.9			
United States	73.4	d	H	
World total	$285			

SWEDEN

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In:	Amount	Type of Investment	Source of Data	Remarks
Austria	$ 4.5	p	CA	$4.4 g Held by Sweden, Norway, and Denmark
Belgium	5.0	g	D	
Czechoslovakia	1	d	S	
Danzig[a]	0.9	g	—	Swedish Match (Standard Corporation Records)
Denmark	32.9	g	A	$7.2 loan to the Mortgage Bank of Denmark
Estonia[a]	2.4	t	AC	$1.8 g, $0.6 c
Finland	11.9	g	A	Some d, including 7 telephone companies
Germany[a]	90	t	T	
Greece	22	g	X	Based on A, V, U
Hungary[a]	2.8	g	A	
Iceland	1.3	g	A	
Latvia	5.5	t	AD	$3.5 g (see also *Moody's Governments*, 1943, p 1839), $2 c
Lithuania[a]	5.2	g, s	CA	$4.2 g
Norway	38.9	t	AC	$24.1 g, $8 s; $6.8 land
Poland[a]	53.9	t	C	$36.1 g, $17.8 c
Romania[a]	45	t	A	All g
Yugoslavia	3	t	A	$1.8 g, $1.2 d
Europe, total	$326.2+			
United States	$ 51	t	G	$18 p (all c), $30 d, $3 m
Bolivia	$ 0.1	t	J	All d
Chile	0.4	t	J	All d
Colombia	1.7	t	J	$1.2 p; $0.5 d
South America, total	$ 2.2			
China (including Manchuria)	$ 1.1	t	AP	All d (includes Norwegian and Danish investments)
Turkey	0.6	g	A	
Asia and Oceania, total	$ 1.7			
World total[b]	$381			

[a] Figures include the Swedish Match Company's portfolio of foreign government bonds as follows (in millions of dollars): *Danzig 0.9, Estonia 1.7, Germany 48.7; Hungary 1.9, Lithuania 4.1, Poland 29.3, Romania 27.7*

[b] The interest and dividends income reported in annual statements published by the League of Nations indicates that the total given here is understated by some 100 to 200 million dollars In part, this may be explained by the fact that Sweden often participated in loans originating in other markets and in many cases such participation is not clearly shown by the financial manuals

SWEDEN (Continued)

II. LONG-TERM OBLIGATIONS ABROAD,

To:				
Czechoslovakia	$ ..			Czechoslovak steel company owns iron mine. *Economist*, Aug. 5, 1939, p. 266
Germany	.			
Norway	17 6	p	C	
United States	26.4	d	H	
Total identified	$ 44.0			In 1938 Sweden paid off the last of its foreign currency government loans. (Source F)

SWITZERLAND

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In:	Amount	Type of Investment	Source of Data	Remarks
Austria	$ 69	t	CJ	$52 p, $17 d
Bulgaria	9.2	g, c	AE	$3 g; $6.2 c
Czechoslovakia	31	t	J	
Denmark	5 7	g	A	
France	96.4	g	A	
Germany	467	t	T	
Greece	4	g	AV	
Hungary	14.2	g, d	AJ	$13 g; $1 2 d (an understatement)
Italy				
Latvia	0 3	t	A	
Norway	23.6	t	AC	$12 8 g; $10.8 s
Poland	24 6	t	C	$10 2 g, $14 4 c
Romania	12.2	t	AJ	$10.7 g; $1.5 d
Yugoslavia	23.0	t	A	$6 7 g, $16 3 d
Europe, total	$ 780 2+			
Mexico	$ 3.5	t	A	All railways
United States	763	t	G	$655 p (all c); $74 d, $34 m
North America, total	$ 766.5			
Cuba	$ 1 4	t	J	All d
Argentina	$ 42	t	JF	$39 g; $3 d
Bolivia	0 3	t	J	All d
Brazil	.			
Chile	14.1	t	ABJ	$12 6 g, $1.5 d (commerce and industry)
Colombia	0 4	t	J	All d
South America, total	$ 56.8+			
Turkey	$ 4 6	g	A	
Egypt	.			
Total identified	$1,609 5			

II. LONG-TERM OBLIGATIONS ABROAD,

To:				
France	$ 16	t	X	Estimated remainder of 1914 holdings
Netherlands	124	t	C	Estimated from 1937 interest and dividends receipts
Norway	3 9	p	C	
Europe, total	$ 143.9			
United States	23.9	d	H	
Total identified	$ 167.8			

UNITED KINGDOM

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In Empire Countries:	Amount		Type of Invest-ment	Source of Data[a]	Remarks
Eire	£ .	$			
Canada . . .	£ 537	$ 2,685	t	M	$920 g (including guaranteed rails)
Newfoundland.. . ..	. .	..			
West Indies, British.... .	£ 40	$ 200	t	KA	Includes Barbados $2 g; Bermuda $0.5 g, Jamaica $43 5 g, Trinidad $13 g and large amount in oil refineries, Windward Islands $2 g
Australia.	£ 530	$ 2,650	t	KJ	$2,150 g
Burma	40	200	t	O	Practically all d
Ceylon	25	125	t	J	
India...	545	2,725	t	X	$1,525 g (including $302 govt. guaranteed rails and railway annuities), $1,200 d. Based on K, London *Financial Times*, Mar. 24, 1943
Malaya, British.	84	420	t	KO	About $50 g
New Zealand	137	685	t	K	$610 g
Palestine	4	20	t	J	$7.5 g, $12.5 d
Asia and Oceania, total..	£1,365	$ 6,825			
East Africa, British[b]	£ 31	$ 155	t	K	$75 g (1936 figure)
South Africa and Rhodesia.	254	1,270	t	K	$546 g
West Africa, British[b]	42	210	t	KAW	$125 g; $85 d (part of $125 investment of United Africa Co W, p. 162)
Other British Africa[b]... ..	33	165	t	K	
Africa, total	£ 360	$ 1,800			
Other British countries ..	£ 16	$ 80	t	KA	Includes British Guiana $17.5 g; British Honduras $2 g
Empire Countries, total	£2,318+	$11,590+			
In Foreign Countries:					
Austria.	£ 19.6	$ 98	t	CAQ	$95 5 g; $2 5d
Belgium	13	65	g	A	
Bulgaria...	10 7	48 9	g, c	AE	$48 5 g; $0 4 c
Czechoslovakia ..	7 2	35.9	g, d	AS	$25 g; $10.9 d
Danzig .. .	1.7	8.5	g	A	
Denmark..	20	100	t	XA	$60 g; $40 d (assuming British figure was twice U S.)
Estonia.	1 1	5.7	t	AC	$3 g
Finland..	3.9	19 5	g	A	
France	26	130	t	XA	$55 5 g. U K. total in France assumed to be as much as U. S. total
Germany	54	270	t	T	
Greece	56	282	t	X	$217 g, $65 d Based on J, A, *Economist*, Mar 14, 1942, p 366
Hungary	17 3	86 6	g, d	AR	$86 5 g; $0.1+ d
Iceland. . . .	1 4	7.0	g	A	
Italy.....	2.5	12.5	g	A	
Latvia	1 3	6.7	t	AD	$3 7 g, $3 c
Lithuania	0 2	1.0	p	FC	Largely s
Norway.	9 8	49 0	t	AC	$38 g, $10 3 s, $0.7 land
Poland	13 3	66 5	t	C	$45.5 g, $21 c
Portugal... ..	30	150	g	A	
Romania .. .	43	215	t	AFJ	$180 g; $35 d ($24 5 oil)
Spain... . .	8.4	42 1	t	B	Excluding confiscated properties, *New York Times*, Feb 5, 1937
Yugoslavia... .. .	5 1	25.5	t	A	$2 5 g, $23 d ($8 1 mining) See *Economist*, April 1940, p. 746
Europe, total. .. .	£ 345.5	$ 1,725.4			
U.S.S.R	£ .	$ ...			Debt outstanding on account of Lena Goldfields settlement. *Economist*, November 1940, p 616

UNITED KINGDOM (*Investments continued*)

Mexico	£ 176	$ 880	t	AL	$160 g, $460 rys, $260 other d. Includes $800 obsolete, defaulted etc
United States	549	2,743	t	G	$1,575 p (all c), $833 d, $335 m
North America, total	£ 725	$ 3,623			
Costa Rica	£ 5	$ 25	t	KLA	$8 5 g
Cuba	28	140	t	KY	$10 g, $130 d ($125 railways)
Guatemala	5	25	t	A	
Honduras	3	15	g	A	
Nicaragua	0 4	2	t	LA	All g
Panama	0 2	1	t	J	Reported figure scaled down because it included resident foreigners, and also bank deposits and other short term
Salvador	1	5.5	t	LA	All p (largely g)
Central America and West Indies, total	£ 42 6	$ 213 5			
Argentina	£ 390	$ 1,950	t	KJY	$338 g (including guaranteed), $1,612 d (including $1,108 rys)
Bolivia	6	29.2	t	J	All d ($11.6 rys., $10 6 mining)
Brazil	160	800	t	K	$600 p (including $360 g), $200 d
Chile	82	410	t	LKJA	$110 g (including guaranteed rails); $300 d (including $160 not quoted in London)
Colombia[c]	8 5	42.5	t	J	$15.9 p, $26.6 d
Ecuador	4	20	t	KL	
Paraguay	3	15	t	KL	
Peru	25	125	t	KL	About $25 g, $100 m
Uruguay	34	170	t	KLJ	$94 d
Venezuela	10	50	t	KL	Probably greatly understated
South America, total	£ 722 5	$ 3,611 7			
China (including Manchuria)	£ 168	$ 841	t	AP	$278 g (of this $66 railways), $563 d
Iran	23	115	t	X	$5 g, $110 d (Anglo-Iranian Oil British Govt owns $55 common Stock). Based on A and Standard Corporation Records
Iraq	8	40	t	X	$5 g, $35 c. Based on A, H, and *Economist*, May 1931, p. 1095
Japan	50	250	t	KY	$210 g
Netherlands East Indies	40	200	t	O	Practically all d
Philippine Islands	9	45	t	O	
Siam	20	100	t	O	$15 g, $85 d (*Moody's Governments*, 1943, p 1905)
Turkey	37	185	t	AV	$17 5 g; $167 5 d
Asia and Oceania, total	£ 355	$ 1,776			
Belgian Congo	£ 12.8	$ 64	g, d	X	$18 g held by U K Govt.; $40 United Africa Co.; $6 mining (Based on A and W, p. 162 Standard Corporation Records, Joralemon *Romantic Copper*, p. 258.) Some additional in mining and railways. (W, p 413)
Egypt and Suez	£ 41	$ 205	t	X	$100 g, $105 c. ($30 Suez.) Based on V, *Moody's Utilities*, *Economist*, August 1939, p 358. British Govt. owns 7/16 of the Suez shares.
French Cameroon	1	5	d	A	
Portuguese Africa: Angola	16	80	d	W	$62 Benguela Ry (See *Moody's Railroads* 1933)
Mozambique	2.3	11.5	d	—	All in Beira Railway (*Moody's Railroads* 1933) Some additional in 2 other railways (See W, p 416)
Africa, total	£ 73.1	$ 365 5			
World, total	£4,582+	$22,905+			

[a] Unless otherwise indicated, figures from source K include government securities held by the British in December 1938, and corporate securities in December 1936.
[b] *East Africa* includes Anglo-Egyptian Sudan, Somaliland, Kenya, Uganda, Tanganyika, Zanzibar, Nyasaland. *West Africa* includes Nigeria, Gold Coast, Sierra Leone, Gambia *Other Africa* includes Basutoland, Swaziland, South-West Africa, Bechuanaland.
[c] *South American Journal* gives a total of £5,800,000 (29 million dollars) for Colombia.

UNITED KINGDOM *(Continued)*

II. LONG-TERM OBLIGATIONS ABROAD,

To:				
Eire	$			
France . . .	20	t	X	Estimated remainder of 1914 holdings
Netherlands	275	t	C	Estimated from 1937 interest and dividends receipts
Norway.	13.6	p	C	
Poland				
Europe, total	$ 308 6+			
Canada	$ 41	t	M	$20 p; $13 d, $8 m
United States	631	t	JH	$90 p (including foreign currency securities); $541 d
North America, total.	$ 672			
Australia	$ 224	p	D	Held by Australian Government and Note Issue Department
India, Burma, Ceylon . ..				
British Africa				
Egypt	94	g	AB	Securities held by Egyptian Government and bank
Total identified	$1,298 6			

YUGOSLAVIA

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In	Amount	Type of Investment	Source of Data	Remarks
United States . .	$1	t	G	All p (c)
Bolivia	$1	t	J	All d
Chile	6	t	J	All d ($5 6 commerce and industry)
South America, total ..	$7			
Total identified	$8			

II. LONG-TERM OBLIGATIONS ABROAD,[a]

To:				
Austria	$ 8.4	t	AF	All d
Belgium.	5 3	t	A	All d
Czechoslovakia... . . .	21.4	t	A	$3 6 g; $17.8 d
France	101 6	g, d } t	A	$77.8 g (including $23.8 French government loan); $23 8 d (6 1 mining) See *Economist*, April 1940, p. 746
" (gold franc debt).	$20.4 or $167.3	g }	A	510 gold francs at 4¢ (paper value) or at 32 8¢ (gold value)
Germany	2 8	t	A	All d
Hungary.	5.0	t	A	All d
Italy	11.3	t	A	All d
Netherlands.. ...	1 8	t	A	$0 9 g; $0.9 d
Sweden	3 0	t	A	$1.8 g; $1.2 d
Switzerland...	23.0	t	A	$6 7 g, $16 3 d
United Kingdom.	25.5	t	A	$2 5 g; $23 d ($8 1 mining) See *Economist* April 1940, p 746
Europe, total... .	$229 5 or $376 4			Gold francs included at 4¢ or 32.8¢
United States	38 3	p, d	IH	$33 1 p, $5 2 d
Country not identified...	43	g, d	A	$28 g (Yugoslav share of prewar Austro-Hungarian external debt), $15 d
World total[b].	$311 or $458	t	A	Gold francs at 4¢, or at 32 8¢

[a] Obligations marked "d" may in some cases represent participation in Yugoslav-controlled enterprises, rather than direct investment See *Economist*, April 1939, p 196.
[b] Yugoslavia refuses responsibility for any share of the old Ottoman debt—none of which is included here.

U.S.S.R.

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In:	Amount	Type of Invest-ment	Source of Data	Remarks
Latvia	$ 0.4	t	A	$0.1 to U S S R ; $0 3 to "Imperial Russia"
United States	.			Less than 0 5 t, some d
Chile	0.3	t	J	All d
China (including Manchuria)	47.5	t	AP	$10 9 g; $36 6 d
Turkey	6.5	g	A	Debt incurred in gold dollars (would equa 11 1 in depreciated dollars)
World total	$54 7+			

II. LONG-TERM OBLIGATIONS ABROAD,[a]

To:				
United Kingdom	$ ...			Debt outstanding on account of Lena Goldfields settlement, *Economist*, Nov. 1940 p 616
United States	*10.4*	p	I	
Japan	5	d	—	Oil and coal in North Sakhalin Foreign Policy Association, *Information Service*, Oct. 15, 1930, p. 389
Total	$15.4+			

[a] Repudiated external government debt (excluding war debts and interest) aggregated about £945,000,000 (*Moody's Governments*, 1940) Expropriated foreign properties amounted to additional millions.

CANADA[a]

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In:	Amount	Type of Invest-ment	Source of Data	Remarks
Greece	$ 6.3	g	A	
Norway	10 6	d	CHX	$5 s; $5.6 land
United Kingdom	41	t	M	$20 p; $13 d, $8 m
Europe, total	$ 57.9			
Mexico	$ 27	t	A	All d (utilities)
United States	1,195	t	G	$652 p (all c), $463 d, $80 m
North America, total	$1,222			
Cuba	$ 10	t	J	
Panama	1	t	J	Reported figure scaled down because it included resident foreigners, and also bank deposits and other short term
Central America and West Indies, total	$ 11			
Bolivia	$ 9.8	t		All d (utilities)
Brazil				
Chile	1 6	t	J	All d
Colombia	10 4	t	J	All d, p unknown but believed small
South America, total	$ 21 8+			
Country not identified	$ 542	—	M	Difference between total reported by Canadian Government and total identified above
World total	$1,855	t	M	

CANADA (*Continued*)

II. LONG-TERM OBLIGATIONS ABROAD,

To:	Amount	Type of Investment	Source of Data	Remarks
France	$ 40	t	X	Estimated remainder of 1914 holdings, checked by M
United Kingdom	2,685	t	M	$920 g (including guaranteed rails)
United States [a]	3,795	t	III	$1,693 p (based partly on *U S Balance of Payments 1938*, p 50); $2,102 d
Other countries	108	—	M	Difference between total reported by Canadian Government and total identified above
World total	$6,628	t	M	

[a] Newfoundland is included in figures for the United States, but the amounts are very small

MEXICO

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In:	Amount	Type of Investment	Source of Data	Remarks
United States	$ 19	t	G	$12 p (all c), $2 d, $5 m

II. LONG-TERM OBLIGATIONS ABROAD,

To:	Amount	Type of Investment	Source of Data	Remarks
France	$ 91	t	A	$85 g and railways
Germany	6.5	t	A	All railways. Probably some mining is German, also some government
Netherlands	46	t	A	Principally oil
Spain	...			
Switzerland	3 5	t	A	All railways
United Kingdom	880	t	AL	$160 g, $460 railways, $260 other d Includes about $800 obsolete, defaulted, etc
Europe, total	$1,027+			
Canada	$ 27	t	A	All d (utilities)
United States	658.5	p, d	XH	$179 p including $67 g (based on A); $479.5 d (1936 figure)
North America, total	*$ 685 5*			
Country not identified	$ 65	d	A	Mining
World total	$1,778+			

UNITED STATES

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,[a]

In.	Amount	Type of Invest-ment	Source of Data	Remarks
Austria	$ 15.9	p, d	IH	$10 2 p (Austrian authorities give $36 8 p); $5 7 d (1936 figure)
Belgium-Luxemburg	48 2	p, d	IH	$31 2 p, $17 d
Bulgaria	7 9	p, d	IF	$4.8 p; $3 1 d
Czechoslovakia	15.9	p, d	IH	$8.2 p (of this $1 1 Sudetenland); $7 7 d
Danzig	3 0	p, d	IH	$1.9 p, $1 1 d (figure is for Danzig, Estonia, and Lithuania)
Denmark	110.7	p, d	IH	$91 p; $19.7 d
Eire	2.5	p, d	IH	$0 4 p; $2 1 d
Estonia	1 3	p	I	Some d (see Danzig)
Finland	14.4	p, d	IH	$8.9 p; $5 5 d
France	131.7	p, d	IH	$14 5 p, $117 2 d
Germany	697	p, d	IH	$353 p; $344 d The reported figures for Germany have been corrected to exclude $15 9 invested in Austria and $1 1 in Sudetenland, Czechoslovakia
Greece	20.8	p, d	IH	$14.8 p, $6 d
Hungary	57 0	p, d	IH	$43.9 p; $13.1 d
Italy	156.7	p, d	IH	$81 2 p; $75 5 d
Latvia	2 6	p, d	IA	$2.4 p; $0 2 d
Lithuania	0 4	p	I	Some d (see Danzig)
Netherlands	18 2	d	H	
Norway	99 5	p, d	IH	$68 6 p, $30 9 d
Poland	79 2	p, d	IH	$50.2 p, $29 d (Polish authorities give a larger total—$171 2)
Portugal	7 1	d	H	
Romania	52.5	p, d	IX	$4.4 p; $48.1 d (based on H)
Spain	73.4	d	H	
Sweden	26 4	d	H	
Switzerland	23 9	d	H	
United Kingdom	631	t	JII	$90 p (including foreign currency securities), $541 d
Yugoslavia	38.3	p, d	III	$33 1 p, $5.2 d
Europe, country not specified	40	p	—	Based on J and *U. S. Balance of Payments, 1938*, p 50
Europe, total	$ 2,375 5			
U S S R	$ 10.4	p	I	
Canada and Newfoundland	$ 3,795	t	IH	$1,693 p (including foreign currency securities, see *U. S. Balance of Payments, 1938*, p. 50), $2,102 d
Mexico	658.5	p, d	XH	$179 p including $67 g (based on A), $479 5 d (1936 figure)
North America, total	$ 4,453 5			
British West Indies	$ 10	t	X	Based partly on H
Costa Rica	32 7	p, d	IH	$8 p; $24 7 d
Cuba	627 8	p, d	IH	$68 p, $559 8 d
Dominican Republic	49 4	p, d	IH	$7 5 p, $41 9 d (largely sugar)
Guatemala	72.9	p, d	IH	$4 7 p; $68 2 d
Haiti	18.2	p, d	IH	$5.7 p; $12 5 d
Honduras and British Honduras	38 3	d	H	
Netherlands West Indies	50	t	X	Based partly on H
Nicaragua	8 9	d	H	
Panama	48 3	p, d	IH	$11.5 p; $36 8 d
Salvador	15 3	p, d	IH	$4.1 p; $11.2 d
West Indies, country not specified	5	p	—	*U. S. Balance of Payments, 1938*, p. 50
Central America and West Indies, total	$ 976 8			

[1] All portfolio investments reported by source I consist of foreign dollar bonds only

UNITED STATES (*Investments continued*)

Argentina . . . . . . $	581.6	p, d	IH	$193 7 p, $387 9 d
Bolivia.	80.4	p, d	IH	$53.6 p, $26 8 d
Brazil	538.4	p, d	IH	$298 3 p; $240 1 d
Chile	612 2	p, d	IH	$198 2 p; $414 d
Colombia.	239.9	p, d	IH	$128 3 p; $111 6 d
Ecuador	5.1	d	H	
Guianas, British, French, and Dutch. . .	6.0	d	H	
Paraguay.	5.0	d	H	
Peru	136 0	p, d	IH	$54.4 p; $81 6 d
Uruguay	47.1	p, d	IH	$36 2 p; $10 9 d
Venezuela.	262.4	d	H	
South America, country not specified.	5	p	—	*U S Balance of Payments, 1938*, p. 50
South America, total . . . . $	2,519 1			
Australia. . . . . $	194.6	p, d	IH	$96.9 p; $97 7 d
China (including Manchuria)	230	p, d	APH	$139 p (including $11.6 rys), $91 d
India.	48.8	d	H	
Indo-China and Siam . . .	3.3	d	O	
Iran.	57.3	d	H	Including Arabia and Bahrein Is
Iraq, Palestine, and Syria . .	31.4	p, d	IH	$0.1 p (in Palestine), $31 3 d
Japan	155.3	p, d	IH	$117.6 p, $37 7 d
Malaya.	23.5	d	X	Based on H
Netherlands East Indies . .	71 3	d	H	
New Zealand.	22.6	d	H	
Philippine Islands	133.5	p, d	IH	$42.8 p; $90 7 d
Siam.				See Indo-China
Turkey	22 7	p, d	IH	$10.7 p; $12 d
Oceania, country not specified.	3	p	—	*U. S Balance of Payments, 1938*, p. 50
Asia and Oceania, total. . . . $	997 3			
Belgian Congo . . . . . $	9 1	d	J	Principally mining
British South Africa	72 9	d	H	
Other British Africa. . . .	5 0	d	H	
Egypt	22 8	d	H	
French Africa.	9.8	d	H	
Liberia.	12	t	IX	$1.9 p, about $10 d (based partly on Cleona Lewis, *America's Stake in International Investments* [1938], pp. 286–87)
Portuguese Africa	1.7	d	H	
Other Africa	7.7	d	X	Based on H
Africa, country not specified .	17	p	—	*U S. Balance of Payments, 1938*, p 50
Africa, total . . . . . . $	158 0			
World total.	$11,491			

II LONG-TERM OBLIGATIONS ABROAD,[b]

To.				
Austria . . . . $	9	t	G	Practically all p
Belgium-Luxemburg.	156	t	G	$70 p, $74 d, $12 m
Czechoslovakia.	5	t	G	$2 p, $2 d, $1 m
Denmark.	17	t	G	$5 p; $8 d; $4 m
Eire.	14	t	G	$8 p; $1 d, $5 m
Estonia	1	t	G	All p
Finland	1	t	G	All p
France	408	t	G	$287 p; $57 d, $64 m
Germany.	124	t	G	$40 p; $55 d, $29 m
Greece.	5	t	G	$3 p; $1 d; $1 m
Italy.	48	t	G	$14 p; $12 d, $22 m
Lichtenstein	20	t	G	$12 p; $8 d
Monaco.	13	t	G	$11 p, $2 m
Netherlands.	970	t	G	$779 p, $179 d; $12 m
Norway.	10	t	G	$6 p; $2 d, $2 m
Poland.	2	t	G	$1 p, $1 m
Portugal.	2	t	G	$1 p, $1 m
Spain	21	t	G	$17 p, $1 d; $3 m
Sweden	51	t	G	$18 p, $30 d, $3 m
Switzerland	763	t	G	$655 p; $74 d, $34 m
United Kingdom	2,743	t	G	$1,575 p; $833 d; $335 m
Yugoslavia	1	t	G	All p
Europe, total	$ 5,384			

UNITED STATES *(Obligations continued)*

Canada and Newfoundland	$ 1,195	t	G	$652 p; $463 d, $80 m
Mexico	19	t	G	$12 p, $2 d, $5 m
North America, total	$ 1,214			
British West Indies	$ 30	t	G	$22 p; $1 d; $7 m
Costa Rica	1	t	G	All p
Cuba	26	t	G	$17 p; $5 d; $4 m
Guatemala	1	t	G	All p
Honduras and British Honduras	3	t	G	$2 p, $1 m
Netherlands West Indies	2	t	G	All p
Panama	3	t	G	All p
Salvador	2	t	G	All p
Central America and West Indies, total	$ 68			
Argentina	$ 9	t	G	$6 p; $1 d; $2 m
Brazil	5	t	G	$2 p; $2 d; $1 m
Chile	18	t	G	$8 p, $8 d; $2 m
Colombia	2	t	G	All p
Ecuador	1	t	G	All p
Guiana, Dutch	1	t	G	All p
Peru	2	t	G	All p
Venezuela	2	t	G	All p
South America, total	$ 40			
Australia	$ 18	t	G	$11 p, $1 d, $6 m
China	58	t	G	$53 p; $5 d
India	12	t	G	$11 p; $1 d
Japan	48	t	G	$6 p; $41 d, $1 m
Malaya	1	t	G	All p
Netherlands East Indies	7	t	G	All p
New Zealand	4	t	G	$1 p; $2 d; $1 m
Palestine	5	t	G	$4 p; $1 m
Philippine Islands	28	t	G	$17 p, $10 d; $1 m
Turkey	1	t	G	All m
Asia and Oceania, total	$ 182			
British Africa	$ 3	t	G	$2 p; $1 m
Egypt	9	t	G	$7 p; $2 m
French Africa	2	t	G	$1 p; $1 m
Spanish Africa	1	t	G	All p
Africa, total	$ 15			
Country not identified	$ 104	g, d	G	$100 g; $4 d
World total	$ 7,007	t	G	

[b] Figures are for middle of 1937. All foreign investment in United States Government securities (national, state, and local) is estimated by the Department of Commerce at 100 million dollars with no breakdown of countries given None of this is included in the estimates of individual countries

Some 25 countries have investments in the United States of less than $500,000 each, as follows. *Europe*—Albania, Bulgaria, Danzig, Hungary, Iceland, Latvia, Lithuania, Romania, *U S S R*, *Central America and West Indies*—Dominican Republic, Haiti, Nicaragua, Panama Canal Zone; *South America*—Bolivia, British Guiana, French Guiana, Paraguay, Uruguay, *Asia and Oceania*—Indo-China, Iran, Iraq, Siam, Syria; *Africa*—Ethiopia, Liberia, "Other Africa"

BRITISH WEST INDIES

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In.	Amount	Type of Investment	Source of Data	Remarks
United States	$ 30	t	G	$22 p (all c); $1 d, $7 m

BRITISH WEST INDIES *(Continued)*

II. LONG-TERM OBLIGATIONS ABROAD,

To:				
United Kingdom	$200	t	KA	Includes Barbados $2 g; Bermuda $0 5 g, Jamaica $43.5 g, Trinidad $13 g, and a large amount in oil refineries, Windward Is $2 g
United States	10	t	X	Based partly on H
Total identified	$210			

COSTA RICA

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In:	Amount	Type of Investment	Source of Data	Remarks
United States	$ 1	t	G	All p (c)

II. LONG-TERM OBLIGATIONS ABROAD,

To:				
France	$ 4.2	t	A	$0 2 g
Germany	2 5	t	A	All d
Spain	...			Some bonds and real estate
United Kingdom	25	t	KLA	$8 5 g
Europe, total	$31.7+			
United States	$32 7	p, d	IH	$8 p; $24 7 d
World total	$64 4+			

CUBA

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In:	Amount	Type of Investment	Source of Data	Remarks
United States	$ 26	t	G	$17 p (all c), $5 d; $4 m

II. LONG-TERM OBLIGATIONS ABROAD,

To:				
France	$ ..			
Germany	0 6	t	J	
Netherlands	1.8	t	J	
Spain	.		J	
Switzerland	1.4	t	J	All d
United Kingdom	140	t	KY	$10 g, $130 d ($125 railways)
Europe, total	$143.8+			
Canada	$ 10	t	J	
United States	627.8	p, d	IH	$68 p; $559.8 d
North America, total	$637.8			
Sterling securities held outside U K	$ 25	p	KL	
World total	$807+			

DOMINICAN REPUBLIC

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In:	Amount	Type of Invest-ment	Source of Data	Remarks
United States.	$.		G	Less than $0 5 t

No further record available.

II. LONG-TERM OBLIGATIONS ABROAD,

To.	Amount	Type of Invest-ment	Source of Data	Remarks
United States.	$49 4	p, d	IH	$7 5 p; $41.9 d (largely sugar)

FRENCH WEST INDIES

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

Small—no record available

II. LONG-TERM OBLIGATIONS ABROAD,

To:	Amount	Type of Invest-ment	Source of Data	Remarks
France				
By—Guadeloupe....... ..	$3 1	g	A	
Martinique .	2 3	g	A	
Total identified	$5 4			

GUATEMALA

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In:	Amount	Type of Invest-ment	Source of Data	Remarks
United States	$ 1	t	G	All p (c)

II. LONG-TERM OBLIGATIONS ABROAD,

To:	Amount	Type of Invest-ment	Source of Data	Remarks
Germany...	$ 20	t	A	50 marks (gold)
Netherlands .	4	t	J	All d
United Kingdom.	25	t	A	
Europe, total .	$ 49			
United States....... . .	72 9	p, d	IH	$4 7 p; $68 2 d
Sterling loans held outside U.K	30	p	KL	
World total . .	$152			

HAITI

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In	Amount	Type of Invest-ment	Source of Data	Remarks
United States...	$ ..		G	Less than $0 5 t

No further record available.

HAITI (*Continued*)

II. LONG-TERM OBLIGATIONS ABROAD,

To·	Amount	Type of Investment	Source of Data	Remarks
Netherlands	$ 2	t	J	All d
United States	18 2	p, d	IH	$5 7 p, $12 5 d
Total identified	$20.2			

HONDURAS AND BRITISH HONDURAS

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In	Amount	Type of Investment	Source of Data	Remarks
United States	$ 3	t	G	$2 p (all c), $1 m

II. LONG-TERM OBLIGATIONS ABROAD,

To:		Amount	Type of Investment	Source of Data	Remarks
United Kingdom					
By—British Honduras	$ 2		g	A	
Honduras	15		g	A	
Total		$17			
United States		38.3	d	H	
Country not specified		4	d	J	Held in countries other than U. S
World total		$59.3			

NETHERLANDS WEST INDIES

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In.	Amount	Type of Investment	Source of Data	Remarks
United States	$ 2	t	G	All p (c)

II. LONG-TERM OBLIGATIONS ABROAD,

To	Amount	Type of Investment	Source of Data	Remarks
Netherlands	$ 55	t	X	All d (largely oil refineries)
United States	50	t	X	Based partly on II
Total identified	$105			

NICARAGUA

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In:	Amount	Type of Investment	Source of Data	Remarks
United States	$.		G	Less than $0 5 t

No further record available.

II. LONG-TERM OBLIGATIONS ABROAD,

To	Amount	Type of Investment	Source of Data	Remarks
United Kingdom	$ 2	t	LA	All g
United States	8.9	d	H	
Total identified	$10 9			

PANAMA

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In:	Amount	Type of Invest-ment	Source of Data	Remarks
United States	$ 3	t	G	All p (c)

II. LONG-TERM OBLIGATIONS ABROAD,

To.	Amount	Type of Invest-ment	Source of Data	Remarks
France[a]	$ 1	t	J	
Spain[a]	1	t	J	
United Kingdom[a]	1	t	J	
Europe, total	$ 3			
Canada[a]	$ 1	t	J	
United States	48.3	p, d	IH	$11.5 p; $36 8 d
North America, total	$49 3			
World total	$52.3			

[a] The reported figures have been scaled down because they included resident foreigners, and also bank deposits and other short term

SALVADOR

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In	Amount	Type of Invest-ment	Source of Data	Remarks
United States	$ 2	t	G	All p (c)

II. LONG-TERM OBLIGATIONS ABROAD,

To:	Amount	Type of Invest-ment	Source of Data	Remarks
United Kingdom	$ 5.5	t	LA	All p (largely g)
United States	15.3	p, d	IH	$4 1 p, $11 2 d
Total identified	$20 8			

ARGENTINA

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In:	Amount	Type of Invest-ment	Source of Data	Remarks
United States	$ 9	t	G	$6 p (all c), $1 d, $2 m
Bolivia.. Paraguay	30	t	V	Largely in agricultural land, railways, and steamship lines (*Yale Review*, Autumn 1937, p 95)
Total identified	$ 39			

ARGENTINA *(Continued)*

II. LONG-TERM OBLIGATIONS ABROAD,

To				
Belgium	$ 336	t	J	$327 d (principally public utilities)
France	160	t	J	$159 d (largely railways)
Germany	12	t	J	All d (principally banking, commerce and industry)
Italy	26.4	t	JF	$0.6 g; $25.8 d
Netherlands	14	t	JF	$7 g, $7 d
Spain	48	t	JA	$5.5 g, $42.5 d (principally utilities)
Switzerland	42	t	JF	$39 g; $3 d
United Kingdom	1,950	t	KJY	$338 g (including guaranteed), $1,612 d (including $1,108 railways)
Europe, total	$2,588.4			
United States	581.6	p, d	IH	$193.7 p; $387.9 d
Other countries	23	t	J	
World total	$3,193			

BOLIVIA

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In.	Amount	Type of Investment	Source of Data	Remarks
United States	$ ..		G	Less than $0.5 t

No further record available

II. LONG-TERM OBLIGATIONS ABROAD,

To:				
Belgium	$ 1.5	t	J	All p
France	5.3	t	J	All d ($5.2 mining)
Germany	8.0	t	J	All d ($5 commercial, $2 real estate)
Italy	1.5	t	J	All d ($1 industrial)
Netherlands	2.1	t	J	All d ($2 mining)
Spain	1.5	t	J	All d ($0.7 mining, $0.6 commercial)
Sweden	0.1	t	J	All d
Switzerland	0.3	t	J	All d
United Kingdom	29.2	t	J	All d ($11.6 railways, $10.6 mining)
Yugoslavia	1.0	t	J	All d
Other Europe	0.2	t	J	All d
Europe, total	$ 50.7			
Canada	$ 9.8	t	J	All d (utilities)
United States	80.4	p, d	IH	$53.6 p, $26.8 d
North America, total	$ 90.2			
Argentina	$ ..			Mining and other
Chile	2.8	t	J	All d
Japan	$ 0.5	t	J	All d
Palestine	0.5	t	J	All d
Asia and Oceania, total	$ 1.0			
World total	$145+			

BRAZIL

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In	Amount	Type of Invest-ment	Source of Data	Remarks
United States.	$ 5	t	G	$2 p (all c), $2 d, $1 m

II. LONG-TERM OBLIGATIONS ABROAD,

To:	Amount	Type of Invest-ment	Source of Data	Remarks
France.	$ 61	g, c } t	AJ	$21 g; $40 c
" (gold franc debt)	$9.2 or $75 2	g } t	AF	229 gold francs at 4¢ (paper value) or at 32 8¢ (gold value)
Germany..	40	t	J	All d
Italy..	..			
Netherlands	10	t	JA	$4 g; $6 d
Portugal	300	t	BFJ	Largely sterling securities
Switzerland.				
United Kingdom.	800	t	K	$600 p (including $360 g), $200 d
Europe, total	$1,220.2+ or $1,286 2+			Gold francs included at 4¢ or 32 8¢
Canada	..			
United States...	538.4	p, d	III	$298.3 p, $240 1 d
Sterling securities held outside U K.	205	p	KL	
World total	$1,964+ or $2,030+			Gold francs included at 4¢, or 32 8

CHILE

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In	Amount	Type of Invest-ment	Source of Data	Remarks
United States....	$ 18	t	G	$8 p (all c); $8 d; $2 m
Bolivia ...	2.8	t	J	All d
Total identified.	$ 20.8			

II. LONG-TERM OBLIGATIONS ABROAD,

To:	Amount	Type of Invest-ment	Source of Data	Remarks
Austria.	$ 0 1	t	J	All d
Belgium.	0 2	t	J	All d
France	17.2	t	ABJ	$7 6 g; $9.6 d ($6.1 mining; $3.3 commerce and industry)
Germany.	20.1	t	J	$19 7 d ($16.2 commerce and industry)
Greece	0 4	t	J	All d
Hungary.	0 1	t	J	All d
Italy..	11.6	t	J	All d ($7 7 commerce and industry)
Netherlands	5 2	t	ABJ	$5 g, $0 2 d
Spain	7 9	t	J	All d ($6.9 commerce and industry)
Sweden.	0 4	t	J	All d
Switzerland	14.1	t	ABJ	$12 6 g; $1 5 d (commerce and industry)
United Kingdom	410	t	LKJA	$110 g (including guaranteed rails), $300 d (including $160 not quoted in London)
Yugoslavia	6 0	t	J	All d ($5.6 commerce and industry)
Europe, total...	$ 493.3			
U.S.S.R	$ 0.3	t	J	All d
Canada	$ 1.6	t	J	All d
United States	612 2	p, d	IH	$198.2 p; $414 d
North America, total.	$ 613.8			
Japan	$ 0.6	t	J	All d
Sterling securities held outside U.K.	$ 180	p	KL	$36 g
World total	$1,288			

COLOMBIA

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In	Amount	Type of Investment	Source of Data	Remarks
United States	$ 2	t	G	All p (c)

II. LONG-TERM OBLIGATIONS ABROAD,

To	Amount	Type of Investment	Source of Data	Remarks
Belgium	$ 6.9	t	J	$6 1 p, $0.8 d
Denmark	0.2	t	J	All d
France	3.6	t	FJ	$2 9 g; $0 7 d
Germany	6 2	t	J	$1 2 p, $5 d
Italy	0 1	t	J	All d
Netherlands	9 6	t	J	All d
Spain	0.2	t	J	All d
Sweden	1.7	t	J	$1.2 p, $0 5 d
Switzerland	0.4	t	J	All d
United Kingdom[a]	42 5	t	J	$15 9 p; $26 6 d
Europe, total	$ 71.4			
Canada	$ 10.4	t	J	All d, p unknown but believed small
United States	239.9	p, d	IH	$128 3 p; $111 6 d
North America, total	$250 3			
World total	$322			

[a] *South American Journal* gives a total of £5,800,000 (29 million dollars) for the U K

ECUADOR

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In	Amount	Type of Investment	Source of Data	Remarks
United States	$1	t	G	All p (c)

II. LONG-TERM OBLIGATIONS ABROAD,

To	Amount	Type of Investment	Source of Data	Remarks
France (gold franc debt)	$0 4 or $3.0	g	B	9.1 gold francs at 4¢ (paper value) or at 32.8¢ (gold value). Government of Ecuador disclaims.
Germany	..			At least one oil company
Italy	0 8	g	FB	
United Kingdom	20	t	KL	
Europe, total	$21 2+ or $23 8+			Gold francs at 4¢ or 32 8¢
United States	5.1	d	H	
Sterling securities held outside U.K.	2		KL	
World total	$28 3+ or $30.9+			Gold francs at 4¢ or 32.8¢

GUIANAS (BRITISH, FRENCH, AND DUTCH)

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In	Amount	Type of Investment	Source of Data	Remarks
United States	$ 1+	t	G	All p (c). $1 in Dutch Guiana. British and French Guiana each held less than $0 5.

GUIANAS *(Continued)*

II. LONG-TERM OBLIGATIONS ABROAD,

To				
France	$ 0.6	g	N	In French Guiana (Inini)
Netherlands	0.6	g	A	In Dutch Guiana (Surinam)
United Kingdom	17.5	g	A	In British Guiana (Demerara)
Europe, total	$18.7			
United States	6 0	d	H	
World total	$24 7			

PARAGUAY

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In	Amount	Type of Investment	Source of Data	Remarks
United States	$..		G	Less than $0 5 t

No further record available

II. LONG-TERM OBLIGATIONS ABROAD,

To				
Belgium	$. .		A	"Fair-sized sums"
France	7	t	A	
Germany	..		A	"Fair-sized sums"
Italy	..			
United Kingdom	15	t	KL	
United States	5	d	H	
Argentina	30	t	V	Largely in agricultural land, railways, and steamship lines (*Yale Review*, Autumn 1937, p 95)
Sterling securities held outside U.K.	1		KL	
Total identified	$58			

PERU

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In	Amount	Type of Investment	Source of Data	Remarks
United States	$ 2	t	G	All p (c)

II. LONG-TERM OBLIGATIONS ABROAD,

To:				
France	$ 5	t	V	
Germany	20	t	V	
Italy	10	t	VF	Including some d (mills and macaroni factories)
United Kingdom	125	t	KL	About $25 g; $100 m
Europe, total	$160			
United States	136	p, d	IH	$54.4 p, $81.6 d
China	10	t	V	
Sterling securities held outside U K.	20		KL	
World total	$326			

URUGUAY

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In:	Amount	Type of Investment	Source of Data	Remarks
United States	$ ...		G	Less than $0.5 t

No further record available.

II. LONG-TERM OBLIGATIONS ABROAD,

To:	Amount	Type of Investment	Source of Data	Remarks
France	$ 12 4	t	VAJ	About $5 5 g
Germany	2.4	d	J	
United Kingdom	170	t	KLJ	$94 d
Europe, total	$184.8			
United States	47.1	p, d	IH	$36.2 p; $10.9 d
Sterling securities held outside U.K.	16	g	KL	
World total	$248			See *Economist* (Feb. 11, 1939, p 308) on service on individual loans

VENEZUELA

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In:	Amount	Type of Investment	Source of Data	Remarks
United States	$ 2	t	G	All p (c)

II. LONG-TERM OBLIGATIONS ABROAD,

To	Amount	Type of Investment	Source of Data	Remarks
Belgium	$ ..			
France	...			
Germany				
Netherlands	40	t	JLK	
United Kingdom	50	t	KL	Probably greatly understated
United States	262 4	d	H	
Sterling securities held outside U.K.	4	p	KL	
Total identified	$356.4			

AUSTRALIA

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In.	Amount	Type of Investment	Source of Data	Remarks
United Kingdom	$ 224	p	D	Held by the Australian Government and Note Issue Department
United States	18	t	G	$11 p (all c), $1 d; $6 m
Malaya, British	.			Some d (including a gold mine)
New Zealand	12 4	g	D	
World total	$ 254+			

AUSTRALIA *(Continued)*

II. LONG-TERM OBLIGATIONS ABROAD,

To				
United Kingdom	$2,650	t	KJ	$2,150 g
United States	194.6	p, d	IH	$96.9 p; $97.7 d
Country not identified	885	—	D	Difference between total reported by Australian Government and total identified above
World total	$3,730	t	D	Part may be held in Australia

CHINA (INCLUDING MANCHURIA)

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In:	Amount	Type of Investment	Source of Data	Remarks
Europe	$ 58	t	X	Assuming same amount in Europe as in United States
United States	$ 58	t	G	$53 p (all c); $5 d
Peru	$ 10	t	V	
Burma	$ 14	t	O	All d
Indo-China	80	t	O	All d
Malaya, British	200	t	O	All d. Chinese companies produced 47 per cent of Malayan tin
Netherlands East Indies	150	t	O	All d
Philippine Islands	100	t	O	All d
Siam	100	t	O	All d
Asia and Oceania, total	$ 644			
World total	$ 770			

II. LONG-TERM OBLIGATIONS ABROAD,

To				
Belgium	$ 84	t	AP	$60 g (of this $53.7 railways), $24 d
France	124	t	AP	$69 g (of this $12.6 railways), $55 d
Germany	130	t	AP	$86 g (of this $54.6 railways); $44 d
Italy	2.6	t	AP	All d
Netherlands	37.2	t	AP	$31.4 g (all railways); $5.8 d
Sweden, Norway, Denmark	1.1	t	AP	All d
United Kingdom	841	t	AP	$278 g (of this $66 railways); $563 d
Europe, total	$1,219.9			
U.S.S.R.	47.5	t	AP	$10.9 g; $36.6 d
United States	230	p, d	APH	$139 p (including $11.6 railways); $91 d
Japan	1,060	t	CJ	Kwantung Leased Territory is included in China
World total	$2,557			

INDIA, BURMA, AND CEYLON

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In	Amount	Type of Investment	Source of Data	Remarks
United Kingdom	$.			
United States	12	t	G	$11 p (all c), $1 d All held in India

II. LONG-TERM OBLIGATIONS ABROAD,

To,		Amount	Type of Investment	Source of Data	Remarks
United Kingdom					
By—Burma	$ 200		t	O	Practically all d
Ceylon	125		t	J	
India	2,725		t	X	$1,525 g (including $302 government guaranteed rails and railway annuities), $1,200 d Based on K and London *Financial Times*, Mar. 24, 1943
Total to United Kingdom		$3,050			
United States		48.8	d	H	All in India
China		14	t	O	All d; all in Burma
World total		$3,113			

INDO-CHINA AND NEW CALEDONIA

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In	Amount	Type of Investment	Source of Data	Remarks
United States	$.		G	Less than $0 5 t

No further record available

II. LONG-TERM OBLIGATIONS ABROAD,

To:		Amount	Type of Investment	Source of Data	Remarks
France					
By—Indo-China	$391		t	BNO	$162 g (including guaranteed rails); $229 d
New Caledonia	2.6		g	A	Also some in nickel mining
Total		$393 6			
United States		3 3	d	O	Includes Siam
China		80	t	O	All d, all in Indo-China
World total		$477			

IRAN

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In	Amount	Type of Invest-ment	Source of Data	Remarks
United States .. .	... $ ..		G	Less than $0 5 t

No further record available.

II. LONG-TERM OBLIGATIONS ABROAD,

To·	Amount	Type of Invest-ment	Source of Data	Remarks
Netherlands.	$ 25	d	X	Part of Royal Dutch-Shell investment in Anglo-Iranian Oil Based on Standard Corporation Records
United Kingdom	115	t	X	$5 g; $110 d (Anglo-Iranian oil. British government owns $55 common stock). Based on A and Standard Corporation Records
Total..	$140			
United States .	57.3	d	H	Including Arabia and Bahrein Islands
Total identified ...	$197.3			

IRAQ, PALESTINE, AND SYRIA

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In:	Amount	Type of Invest-ment	Source of Data	Remarks
United States.	$ 5	t	G	$4 p (all c), $1 m. All held in Palestine. In addition, Iraq and Syria each held less than $0 5.
Bolivia.	0 5	t	J	All d. All held in Palestine
Total identified..........	$ 5.5			

II. LONG-TERM OBLIGATIONS ABROAD,

To:	Amount	Type of Invest-ment	Source of Data	Remarks
France.	$ 32	t	X	Based on H and *Economist*, May 1931, p 1095
Netherlands	14	t	X	Based on H and *Economist*, May 1931, p. 1095
United Kingdom	60	t	X	Based on J, H, A, and *Economist*, May 1931, p 1095
Europe, total	$106			
United States..........	31.4	p, d	IH	$0 1 p (in Palestine); $31 3 d
World total[a]...............	$137			

[a] Iraq, Palestine, Syria (and Lebanon) have retired their quotas of the old Ottoman debt.

JAPAN

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In:	Amount	Type of Investment	Source of Data	Remarks
Europe	$ 48	t	X	Assuming same amount in Europe as in U S
U.S S.R	$ 5	d	—	Oil and coal in North Sakhalin Foreign Policy Association *Information Service*, Oct. 15, 1930, p. 389
United States	$ 48	t	G	$6 p, $41 d; $1 m
Bolivia	$ 0.5	t	J	All d
Chile	0.6	t	J	All d
South America, total	$ 1 1			
China	$1,060	t	CJ	China includes Manchuria and Kwantung Leased Territory
Malaya, British	28	t	XO	All d
Netherlands East Indies	12	t	O	All d
Philippine Islands	28	t	O	All d
Asia and Oceania, total	$1,128			
World total	$1,230			

II. LONG-TERM OBLIGATIONS ABROAD,

To:	Amount	Type	Source	Remarks
France	$ 18.8	g	A	
Netherlands				
United Kingdom	250	t	KY	$210 g
Europe, total	$ 268 8+			
United States	155.3	p, d	IH	$117 6 p; $37 7 d
Country not identified	110	p	XJ	Largely g (including guaranteed) Based on estimate that $457 of Japanese foreign-currency bonds were held by foreigners
World total	$ 534			

MALAYA

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In:	Amount	Type of Investment	Source of Data	Remarks
United States	$ 1	t	G	All p (c)

MALAYA (Continued)

II LONG-TERM OBLIGATIONS ABROAD,

To:				
France	$ 2	d	XO	
Netherlands	22	d	O	
United Kingdom	420	t	KO	About $50 g
Europe, total	$444			
United States	$ 23.5	d	X	Based on H
Australia	$			Some d (including a gold mine)
China	200	t	O	All d. Chinese companies produced 47 per cent of Malayan tin
Japan	28	t	XO	All d
Asia and Oceania, total	$228+			
World total	$696+			

NETHERLANDS EAST INDIES

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In:	Amount	Type of Invest-ment	Source of Data	Remarks
United States	$ 7	t	G	All p (c)

II. LONG-TERM OBLIGATIONS ABROAD,

To:				
France	$ 35	t	O	
Germany	10	t	O	All d
Netherlands	1,900	t	XO	$650 p, $1,250 d Items and total in source O do not agree
United Kingdom	200	t	O	Practically all d
Europe, total	$2,145			
United States	$ 71	d	H	
China	$ 150	t	O	All d
Japan	12	t	O	All d
Asia and Oceania, total	$ 162			
World total	$2,378			

NEW ZEALAND

(All value figures are in millions)

I LONG-TERM INVESTMENTS ABROAD,

In	Amount	Type of Invest-ment	Source of Data	Remarks
United States	$ 4	t	G	$1 p (c), $2 d, $1 m

II LONG-TERM OBLIGATIONS ABROAD,

To:				
United Kingdom	$685	t	K	$610 g
United States	22.6	d	H	
Australia	12 4	g	D	
Total identified	$720.0			

PHILIPPINE ISLANDS

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In.	Amount	Type of Investment	Source of Data	Remarks
United States..	$ 28	t	G	$17 p (all c), $10 d, $1 m

II. LONG-TERM OBLIGATIONS ABROAD,

To	Amount	Type of Investment	Source of Data	Remarks
United Kingdom	$ 45	t	O	
United States..	$133 5	p, d	IH	$42.8 p; $90.7 d
China ...	$100	t	O	All d
Japan	28	t	O	All d
Asia, total	$128			
Total identified	$306 5			

PORTUGUESE ASIA (TIMOR AND MACAU)

I. LONG-TERM INVESTMENTS ABROAD,

Small—no record available

II. LONG-TERM OBLIGATIONS ABROAD,

To	Millions	Type of Investment	Source of Data
Portugal	$1 6	g	F

SIAM

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In.	Amount	Type of Investment	Source of Data	Remarks
United States	$. .		G	Less than $0 5 t

No further record available.

II. LONG-TERM OBLIGATIONS ABROAD,

To	Amount	Type of Investment	Source of Data	Remarks
United Kingdom	$100	t	O	$15 g; $85 d (*Moody's Governments*, 1943, p 1905)
United States	...			See Indo-China
China	100	t	O	All d
Total	$200+			

TURKEY

(All value figures are in millions)

I LONG-TERM INVESTMENTS ABROAD,

In	Amount	Type of Investment	Source of Data	Remarks
United States	$ 1	t	G	All m

TURKEY *(Continued)*

II. LONG-TERM OBLIGATIONS ABROAD,

To				
Austria	$			
Belgium				Some d (including a cement factory)
France	299[a]	f, c} t	AV	$49 g; $250 c
" (gold franc debt)	$1 or $8.2	g } t	A	Gold francs at 4¢, or 32 8¢
Germany	.			Some d (chrome and copper mining)
Italy	5 3	t	J	All d
Netherlands	.			
Sweden	0 6	g	A	
Switzerland	4 6	g	A	
United Kingdom	185	t	AV	$17 5 g; $167.5 d
Europe, total	$496+ or $503+			Gold francs at 4¢, or 32 8¢
U.S S.R.	6 5	g	A	Debt incurred in gold dollars. (Would equal 11 1 in depreciated dollars)
United States	22.7	p, d	III	$10 7 p, $12 d
Country not identified	65	d	X	Based on V
World total	$590+ or $597+			Gold francs at 4¢, or 32 8¢

[a] Bonds amounting to 895 million French francs issued in settlement of Turkey's quota of the old Ottoman debt are all credited to France, although some are held in the United Kingdom and other countries

BELGIAN CONGO

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

Small—no record available.

II LONG-TERM OBLIGATIONS ABROAD,

To	Amount	Type of Invest-ment	Source of Data	Remarks
Belgium	$355	t	X	$140 g; $215 railways and mining, including investment of Belgian Government. (W gives higher figures.) Based on A, W, Standard Corporation Records
United Kingdom	64	g, d	X	$18 g held by U K. Government, $40 United Africa Co; $6 mining (Based on A, W, p. 162, Standard Corporation Records, Joralemon *Romantic Copper*, p 258) Some additional in mining and railways (W, p. 413)
Europe, total	$419+			
United States	9 1	d	J	Principally mining
Total identified	$428.1			

BRITISH AFRICA

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In:	Amount	Type of Invest-ment	Source of Data	Remarks
United Kingdom	$			
United States	3	t	G	$2 p (c), $1 m
Intra-area investments				For example, some South African development capital in Tanganyika

BRITISH AFRICA *(Continued)*

II. LONG-TERM OBLIGATIONS ABROAD,

South Africa and Rhodesia, *Obligations to*				
France	$ 36	t	W	Mining
United Kingdom	1,270	t	K	$546 g
United States	72 9	d	H	
Total	$1,378 9			
Other British Africa,[a] *Obligations to* United Kingdom *Owed by—*				
East Africa $155		t	K	$75 g (1936 figure)
West Africa . 210		t	KAW	$125 g; $85 d (part of $125 investment of United Africa Co —W, p. 162)
Other 165		t	K	
Total to United Kingdom	$ 530			
United States	5	d	H	
Intra-area indebtedness	...			For example, some South African development capital in Tanganyika
Total for British Africa	$1,913 9+			

[a] For list of countries, see footnote, p. 318.

EGYPT (AND SUEZ)

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In:	Amount	Type of Invest-ment	Source of Data	Remarks
Belgium	$ 3	g	F	Bonds held by Egyptian Government
United Kingdom	94	g	AB	Securities held by Egyptian Government and Bank
Europe, total	$ 97			
United States	9	t	G	$7 p (c), $2 m
Total identified	$106			

II. LONG-TERM OBLIGATIONS ABROAD,

To				
Belgium	$.			Banking, railways
France	280	t	X	Based on V, *Moody's Utilities*, and on 1914 estimate
Italy	.			
Netherlands	5	d	X	Based on *Moody's Utilities*
Switzerland	.			
United Kingdom	205	t	X	$100 g, $105 c ($30 Suez) Based on V, *Moody's Utilities; Economist*, August 1939. p 358
Europe, total	$490+			
United States	22.8	d	H	
Total identified	$512.8			

FRENCH AFRICA

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In.	Amount	Type of Invest-ment	Source of Data	Remarks
United States ...	$ 2	t	G	$1 p (c); $1 m

II. LONG-TERM OBLIGATIONS ABROAD,

			Type of Invest-ment	Source of Data	Remarks
Algeria and Tunisia, *Obligations to.*					
France		$196	t	AN	$128 g, $68 d (corporate issues 1924–38)
United States .		1	d	—	U. S. Dept of Commerce, *American Direct Investments in Foreign Countries—1936* (1938)
Total..		$197			
Cameroon, *Obligations to*					
France . . .		$ 12 9	t	A	$1.2 g, $11 7 d
United Kingdom		5	d	A	
Total .		$ 17.9			
Morocco, *Obligations to*					
France		$273	t	AN	$186 g, $87 d (corporate issues 1924–38)
Netherlands .. .		11	g	B	$9.1 guaranteed rails, $1.9 Port of Tangiers (international)
United States .. .		.			See Other French Africa, below
Total		$284+			
Other French Africa, *Obligations to*					
France					
Owed by—					
Madagascar and Somaliland	$ 69.5		t	AN	$52.4 g, $17 1 d (corporate issues 1924–38)
Reunion. . .	1 0		g	N	
Togo . .	2.9		t	N	All g
West and Equatorial. .. .	173		t	AN	$99 g, $74 d (corporate issues 1924–38)
Total to France . .		$246.4			
United States. . .		8 8	d	H	Includes some in Morocco
Total.. . .		$255.2			
Total for French Africa.		$754 1+			

ITALIAN EAST AFRICA

I. LONG-TERM INVESTMENTS ABROAD,

Small—no record available.

II. LONG-TERM OBLIGATIONS ABROAD,

To·	Millions	Type of Invest-ment	Source of Data	Remarks
Italy.	$201	t	A	All d (industrial and commercial)

LIBERIA

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

In	Amount	Type of Invest-ment	Source of Data	Remarks
United States	\$..		G	Less than \$0 5 t

No further record available.

II. LONG-TERM OBLIGATIONS ABROAD,

To:				
United States.	\$ 12	t	IX	\$1 9 p, about \$10 d Based partly on Cleona Lewis, *America's Stake in International Investments* (1938), pp 286–87

PORTUGUESE AFRICA

(All value figures are in millions)

I. LONG-TERM INVESTMENTS ABROAD,

Small—no record available

II. LONG-TERM OBLIGATIONS ABROAD,

	Amount	Type of Invest-ment	Source of Data	Remarks
Angola,				
Obligations to				
Portugal	\$ 55.6	t	FW	\$37 6 g; \$18 d (including railway shares held by Portuguese Government)
United Kingdom ..	80	d	W	\$62 Benguela Railway (See *Moody's Railroads*, 1933)
United States.. . . .	1 7	d	H	Includes some in other Portuguese Africa
Total.	\$137 3			
Mozambique,				
Obligations to				
Portugal	\$ 34	t	FW	\$1 g, \$33 railways
United Kingdom . .	11 5	d	—	All in Beira Railway (*Moody's Railroads*, 1933) Some additional in two other railways (See W, p. 416)
Total . . .	\$ 45 5+			
Cape Verde and Guinea,				
Obligations to				
Portugal . .	\$ 1 1	g	F	
Total for Portuguese Africa	\$183.9+			

SPANISH AFRICA

I. LONG-TERM INVESTMENTS ABROAD,

In:	Millions	Type of Invest-ment	Source of Data	Remarks
United States.... .	\$1	t	G	All p (c)

II. LONG-TERM OBLIGATIONS ABROAD,

No record available

APPENDIX B

GEOGRAPHIC DISTRIBUTION OF SOME BRITISH BALANCE SHEET ITEMS

Chapter IV, pages 57–65, has presented in summary form an analysis of the changes in the international debt and investment balance sheet of Britain during and since World War II. This involved a consideration of the way the balance sheet has been affected by the accumulation of sterling balances and by foreign repatriations of investments held in Britain. The detailed data basic for this discussion are presented in the three tables that make up this appendix.

An estimate showing the geographic distribution of the sterling balances on the latest date for which figures were available was published by the London *Economist* early in 1947, and later figures for a few countries are now available. These estimates are given in the first table, with footnotes showing the dates to which they apply, and the sources from which they are quoted.

In the second table, repatriations are compared with the estimated amount of British investments in the respective countries in 1938. While many of these repatriation figures were reported in 1945 or earlier, the total given here agrees closely with the total reported by the Chancellor of the Exchequer for the close of 1946 (allowance being made for Argentine repatriations in 1947).

In the third table, short-term debts represented by the sterling balances are compared with the 1938 long-term investments of Britain after adjustments were made for known repatriations. A geographic breakdown of new loans and investments is not available.

1. Sterling Balances, 1947[a]
(Estimates are in millions)

Empire Countries	Amount
Australia	£ 150[b]
Burma	11†
Eire	191*
India	1,217[a]
New Zealand	91[a]
South Africa and Rhodesia	23‡
Ceylon	61*
Hong Kong	33*
Malaya	85*
Palestine and Transjordan	116*
East Africa	81*
West Africa	91*
Other British Africa	37*
Trinidad	19*
British West Indies and Bermuda	40*
Other British countries	87*
Total	£2,333

Foreign Countries	Amount
Belgium	£ 25§
France	[c]
Greece	25§
Italy	26[d]
Netherlands	13§
Norway	40[e]
Portugal	79†
Sweden	25[e]
Other Europe	—
Argentina	—
Brazil	65[f]
Uruguay	17[g]
Other South America	5†
China	23†
Egypt and Sudan	470§
Iceland	17†
Iraq	100§
Iran	22†
Siam	13†
All other	5†
Total	£ 970
World Total	£3,303

[a] Figures are from *The Economist*, Feb. 1, 1947, p. 204, unless otherwise noted, and apply to the following dates: § December 1946; * September 1946; ‡ July 1946; † June 1945.

[b] Australia's sterling balance stood at 175 million pounds until reduced by a 25 million pound gift to Britain, *The Economist*, 1947–May 5, p. 688, May 17, p. 771.

[c] France was a short-term debtor to Britain.

[d] Figure for Italy, from *The Economist*, Apr. 5, 1947, represents net holdings at that time.

[e] Unpublished estimate for Norway (April 1947); Sweden (July 1947).

[f] Figure for Brazil is from *The Economist*, Mar. 15, 1947, p. 391.

[g] Figure for Uruguay is from *The Economist*, July 26, 1947, p. 168. Uruguay was planning to use most of this balance for the repatriation of British-owned railways, utilities, and public debt.

2. Repatriation of British Long-Term Overseas Investments, 1939–47
(Figures are in millions)

Empire Countries	British Investments 1938[a]	Off-setting Repatriations 1939–47[b]	Foreign Countries	British Investments 1938[a]	Off-setting Repatriations 1939–47[b]
India	£ 545	£ 332[c]	Argentina	£ 390	£ 247[d]
Canada . . .	537	225[e]	Uruguay	34	14
South Africa and Rhodesia . . .	254	125[f]	Other South America	299	57
Australia . . .	530	5+[f]	Europe	346	14
All other . . .	452	101	Egypt and Suez ..	41	12+[c]
Total	£2,318	£ 788	United States . .	549	203[g]
			All other .	605	5
			Total .	£2,264	£ 552
			World Total .	£4,582	£1,340

[a] Based on appendix table, pp 317–19.

[b] Based on *Statistical Material Presented During the Washington Negotiations* (Cmd. 6707), App. 3. Most of the figures from this source are for June 1945.

[c] The total for India, Burma, and the Middle East, according to Cmd 6707, was 347 million pounds. The figure of 332 millions for India alone is for the end of 1943; see Donald F. Heatherington, "Sterling Balances and Britain's External Debt," Pt 1, *Foreign Commerce Weekly*, Oct. 28, 1944, p. 40. The figure for Egypt and Suez, also from Heatherington, is for the same date.

[d] Including the sale of Argentine railway systems (for 150 million pounds) previously valued at 250 million pounds, of which about 222 millions were held in Britain

[e] The Dominion Bureau of Statistics put the British investment in Canada at the close of 1945 at 1,766 million dollars, or 438 million pounds sterling. *The Canadian Balance of International Payments, Preliminary Statement, 1946*, p. 44.

[f] The figures for South Africa and Australia are given by Heatherington (cited above) for end of 1943 and by early 1947 probably had increased. Cmd. 6707 gives 201 million pounds as the total repatriated by Australia, New Zealand, South Africa, and Eire, the greater part of which must have been by Australia and South Africa.

[g] The figure for the United States excludes collateral for the RFC loan.

3. British Long-Term Investments and Short-Term Obligations, 1947
(Mid-year figures, in millions)

Empire Countries	British Investments 1947[a]	Sterling Balances 1947
Australia	£ 525	£ 150
Canada	312[b]	—
Eire		191
India	213	1,217
New Zealand	137	91
South Africa and Rhodesia	129	23
Malaya	84	85
Palestine and Transjordan	4	116
East Africa	31	81
West Africa	42	91
Other British Africa	33	37
Other British countries	121	251
Deduct repatriations not identified	−101	—
New private investments, 1945, 1946	97	—
Total	£1,627	£2,333

Foreign Countries	British Investments 1947[a]	Sterling Balances 1947
Argentina	£ 143	£ —
Uruguay	20	17
Other South America	242	70
Portugal	30	79
Other Europe	302	154
Egypt and Anglo-Egyptian Sudan	29	470
United States	346	—
All other	600	180
New private investments, 1945, 1946	6	—
Total	£1,718	£ 970
Grand total	£3,345	£3,303
Government loans and investments[c]	666	—
World total	£4,011	£3,303

[a] Based on table, p. 346.
[b] See note [e], p. 346.
[c] Including paid-up subscriptions to Bretton Woods Institutions.

APPENDIX C

Foreign Loans and Credits of the U. S. Government, December 31, 1947[a]

(In millions of dollars)

Country	Total, Active Loans and Credits		Loans of Export-Import Bank, and other Agencies		Lend-Lease and Surplus Property Credits	
	Amount Outstanding	Authorized but Not Utilized	Amount Outstanding	Authorized but Not Utilized	Amount Outstanding	Authorized but Not Utilized
Latin America:						
Argentina	—	0.2	—	0.2	—	—
Bolivia	17.7	3.9	15.6	3.9	2.1	—
Brazil	106.8	35.3	91.8	32.2	15.0	3.1
Chile	19.4	43.6	19.0	43.6	0.4	—
Colombia	19.4	14.7	18.6	14.7	0.8	—
Costa Rica	6.8	—	6.7	—	0.1	—
Cuba	38.8	7.3	11.9	7.3	26.9	—
Dominican Republic	1.3	—	1.3	—	—	—
Ecuador	7.4	11.3	7.0	11.1	0.4	0.2
Haiti	6.7	0.3	6.7	—	—	0.3
Honduras	0.7	0.3	0.6	—	0.1	0.3
Mexico	66.3	66.7	62.4	66.7	3.9	—
Nicaragua	2.3	—	2.2	—	0.1	—
Panama	0.1	—	—	—	0.1	—
Paraguay	4.8	—	4.8	—	—	—
Peru	5.5	0.1	0.4	—	5.1	0.1
Salvador	1.2	—	1.2	—	—	—
Uruguay	12.2	2.0	12.1	2.0	0.1	—
Venezuela	1.9	—	1.9	—	—	—
Unclassified	49.3	60.1	0.1	25.0	49.2	35.1
Total	368.6	245.8	264.3	206.7	104.3	39.1
Europe:						
Austria	5.2	28.7	—	14.3	5.2	14.4
Belgium	145.3	50.0	97.2	50.0	48.1	—
Czechoslovakia	29.7	—	21.9	—	7.8	—
Denmark	15.5	14.5	15.0	5.0	0.5	9.5
Finland	93.5	38.7	78.0	19.0	15.5	19.7
France	1,868.1	98.0	1,138.9	38.0	729.2	60.0
Germany	38.0	14.4	4.6	14.4	33.4	—
Greece	94.5	23.8	9.8	15.2	84.7	8.6
Hungary	16.3	—	—	—	16.3	—
Italy	237.4	120.1	18.0	102.0	219.4	18.1
Netherlands	260.7	42.4	192.8	0.1	67.9	42.3
Norway	31.0	59.8	10.0	40.0	21.0	19.8
Poland	60.0	33.0	28.9	14.4	31.1	18.6
Portugal	—	—	—	—	—	—
United Kingdom	4,268.9	335.0	3,627.6	335.0	641.3	—
Cotton credit, not allocated	—	24.4	—	24.4	—	—
Total	7,164.1	882.8	5,242.7	671.8	1,921.4	211.0

Foreign Loans and Credits of the U. S. Government (Continued)

(In millions of dollars)

Country	Total, Active Loans and Credits		Loans of Export-Import Bank, and other Agencies		Lend-Lease and Surplus Property Credits	
	Amount Outstanding	Authorized but Not Utilized	Amount Outstanding	Authorized but Not Utilized	Amount Outstanding	Authorized but Not Utilized
Other British Commonwealth:						
Australia	7.0	—	—	—	7.0	—
British East Africa	0.1	—	—	—	0.1	—
British Honduras	0.4	—	0.4	—	—	—
Burma	5.0	—	—	—	5.0	—
Canada	5.0	300.0	5.0	300.0	—	—
India	10.0	—	—	—	10.0	—
Newfoundland and Labrador	1.4	—	1.4	—	—	—
New Zealand	4.4	1.1	—	—	4.4	1.1
Union of South Africa	1.5	—	—	—	1.5	—
Total	34.8	301.1	6.8	300.0	28.0	1.1
U.S.S.R.	216.1	25.5	—	—	216.1	25.5
Asia:						
China	213.8	45.5	79.8	28.2	134.0	17.3
Iran	7.8	25.0	—	—	7.8	25.0
Iraq	0.5	—	—	—	0.5	—
Japan	79.6	6.1	69.3	1.1	10.3	5.0
Korea	15.2	9.8	—	—	15.2	9.8
Lebanon	1.7	3.0	—	—	1.7	3.0
Netherlands Indies	65.3	146.7	—	100.0	65.3	46.7
Philippines	65.0	10.0	60.0	—	5.0	10.0
Saudi Arabia	12.0	15.0	10.0	15.0	2.0	—
Siam	5.1	4.9	—	—	5.1	4.9
Turkey	11.8	38.8	2.1	33.7	9.7	5.1
Total	477.8	304.8	221.2	178.0	256.6	126.8
Africa:						
Egypt	8.3	5.6	—	5.6	8.3	—
Ethiopia	1.0	2.5	0.6	2.5	0.4	—
Liberia	11.6	7.7	—	—	11.6	7.7
Total	20.9	15.8	0.6	8.1	20.3	7.7
Miscellaneous	0.1	3.4	0.1	3.4	—	—
Grand Total	8,282.4	1,779.2	5,735.7	1,368.0	2,546.7	411.2

[a] Compiled from U. S. Department of Commerce, Clearing Office for Foreign Transactions, *Foreign Transactions of the U. S. Government, Foreign Credits, December 31, 1947* (Apr. 1, 1948; *Export-Import Bank of Washington, July–December, 1947*).

[b] Including advances to foreign governments (outstanding, 261.2 million dollars; authorized but not utilized, 14.6); and commodity programs (outstanding 102.7 million dollars; authorized but not utilized, 1.1).

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